

# Agenda

## ND Teachers' Fund for Retirement Board Meeting

Thursday, September 25, 2014  
1:00 pm

Peace Garden Room  
State Capitol, Bismarck, ND

1. Call to Order and Approval of Agenda - Pres. Gessner (Board Action)
2. Approval of Minutes of August 22, 2014 Meeting – Pres. Gessner (Board Action)
3. Board Education: ND Education Demographics – Jerry Coleman, DPI (Information)
4. Board Education: ND Teacher Shortage – Janet Welk, ESPB (Information)
5. TFFR Legislative Update – Fay Kopp (Information)
6. Annual TFFR Investment Report – Dave Hunter (Board Action)
7. Annual RIO Budget and Expense Report – Connie Flanagan (Board Action)
8. SIB Audit Committee Update – Pres. Gessner (Information)
9. SIB Customer Satisfaction Survey – Pres. Gessner (Board Action)
10. TFFR Policy Changes – Fay Kopp (Board Action)
11. Electronic Board Documents – Fay Kopp and Rich Nagel (Information)
12. Other Business
13. Adjournment

**Next Board Meeting: October 23, 2014**

*Any person who requires an auxiliary aid or service should contact the Deputy Executive Director at 701-328-9885 at least three (3) days before the scheduled meeting.*

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
MINUTES OF THE  
AUGUST 22, 2014, SPECIAL BOARD MEETING**

**BOARD MEMBERS PRESENT:** Mike Gessner, President  
Clarence Corneil, Vice Chair  
Kirsten Baesler, State Superintendent  
Kim Franz, Trustee  
Rob Lech, Trustee  
Mel Olson, Trustee (teleconference)

**STAFF PRESENT:** David Hunter, ED/CIO  
Fay Kopp, Deputy ED/CRO (teleconference)  
Darlene Roppel, Retirement Assistant  
Shelly Schumacher, Retirement Program Manager

**OTHERS PRESENT:** Janilyn Murtha, Attorney General's Office

**ABSENT:** Kelly Schmidt, State Treasurer

**CALL TO ORDER:**

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the special board meeting to order at 1:20 p.m. on Friday, August 22, 2014, at the State Capitol, Peace Garden Room, Bismarck, ND.

**THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: SUPT. BAESLER, MR. CORNEIL, MRS. FRANZ, MR. GESSNER, MR. LECH, AND MR. OLSON.**

**APPROVAL OF AGENDA:**

The Board considered the meeting agenda.

**MR. LECH MOVED AND MRS. FRANZ SECONDED TO APPROVE THE AGENDA AS PRESENTED.**

**AYES: MR. CORNEIL, MRS. FRANZ, SUPT. BAESLER, MR. LECH, AND PRESIDENT GESSNER.**

**NAYS: NONE**

**MOTION CARRIED.**

**MINUTES:**

The board considered the minutes of the regular TFFR board meeting held July 24, 2014.

SUPT. BAESLER MOVED AND MR. CORNEIL SECONDED TO APPROVE THE MINUTES OF THE REGULAR TFFR BOARD MEETING HELD JULY 24, 2014.

AYES: MR. LECH, SUPT. BAESLER, MR. OLSON, MRS. FRANZ, MR. CORNEIL, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

**DEFENSE OF MARRIAGE ACT (DOMA)/WINDSOR DECISION UPDATE:**

Mrs. Fay Kopp, Deputy Executive Director/Chief Retirement Officer, introduced Ms. Mary Beth Braitman and Ms. Tiffany Sharpley with IceMiller Legal Counsel, who participated via teleconference. Ms. Braitman reviewed a memorandum dated August 18, 2014, which includes their analysis of the impact of the U.S. Supreme Court's *U.S. vs. Windsor* decision and Rev. Ruling 2013-17, subsequently issued by the Internal Revenue Service (IRS). Ms. Braitman explained that the primary effect of this decision on NDTFFR is that for federal tax purposes, a same-sex spouse must be treated the same as an opposite-sex spouse, both in states where same-sex spouses are legally married, as well as in states that do not recognize same-sex marriages. For certain state benefit design purposes, however, North Dakota can continue to distinguish same-sex spouses from opposite-sex spouses. TFFR is required to follow federal tax law in order to maintain its status as a qualified governmental plan.

Ms. Sharpley described the basis for their analysis of the impact of *Windsor* on TFFR plan provisions. Areas identified for immediate compliance changes for TFFR to maintain its qualified plan status are rollovers of death benefits, benefit limitations, and required minimum distributions. IceMiller recommends that specific dates be removed from TFFR statutes since it appears to limit the reference to the Internal Revenue Code (IRC) section to a specific date and time since the date predates the *Windsor* decision or subsequent IRS guidance. She also noted that some of the TFFR state forms and operations may also need to be changed.

Ms. Jan Murtha, Attorney General's Office, elaborated on the analysis done by IceMiller. In reviewing IceMiller's recommendation with Legislative Council, it was identified that Art. X, Sec. 3, of the ND Constitution, allows adoption by reference of federal income tax laws as amended in the future. Consequently, Ms. Murtha drafted an amendment to Bill No. 140 that would remove the date references. Ms. Murtha reviewed a proposed course of action regarding compliance with federal tax law in those areas identified by outside counsel with the Board to authorize TFFR to update policies, procedures, and publications to allow the agency to function consistently with these three items required for qualification by the IRS; noting that various TFFR statutes do require the Board to administer the plan in compliance with federal tax law. She also recommended the Board amend TFFR's Bill No. 140 that was submitted to the Employee Benefits Program Committee (EBPC) to remove tax code effective dates or include actual IRC

amendment dates in a list form as directed by Legislative Council and tax counsel.

**MR. OLSON MOVED AND MR. CORNEIL SECONDED TO ALLOW TFFR TO MAKE THE NECESSARY CHANGES OPERATIONALLY AND ALLOW THE AGENCY TO UPDATE ITS FORMS, POLICIES, PROCEDURES AND PUBLICATIONS CONSISTENT WITH IRS GUIDELINES AND TO AMEND THE BILL DRAFT AS RECOMMENDED.**

**AYES: MR. OLSON, SUPT. BAESLER, MR. LECH, MR. CORNEIL, MRS. FRANZ, AND PRESIDENT GESSNER.**

**NAYS: NONE**

**MOTION CARRIED.**

Legislation with the necessary amendments will be on the September board meeting agenda.

**ANNUAL SIB CUSTOMER SATISFACTION SURVEY:**

The board discussed the annual customer satisfaction survey sent by the SIB. Board members were instructed to complete the survey individually and send it to President Gessner. He will compile the results and present it to the board for discussion at the September meeting.

**EXPERIENCE STUDY PLANNING:**

Mrs. Kopp reviewed the statutory requirement of conducting an experience study once every five years as stated in NDCC 15-39.1-05.2. The last one was conducted by Gabriel, Roeder, and Smith Company (GRS) for the five fiscal years 2005-2009 and presented to the Board in January 2010. The next experience study is scheduled to be conducted by Segal Company and include the five fiscal years 2010-2014. It will be delivered to the Board in the 2014-15 fiscal year.

Mrs. Kopp noted staff from the Department of Public Instruction (DPI) and Education Standards and Practices Board (ESPB) have been asked to present information about student-teacher growth and teacher shortages at future board meetings. All subject areas are considered critical shortage areas for the 2014-15 school year.

**LEGISLATIVE UPDATE - INTERIM COMMITTEES:**

Mrs. Kopp reported the next EBPC meeting is scheduled for September 18, 2014. Proposed amendments will be presented at this meeting. The Committee will also receive the technical analysis of Study Bill No. 140 from Segal. Segal will present the results of the 2014 actuarial valuation report for TFFR and Public Employees Retirement System (PERS) at the October 29, 2014, meeting. An opportunity for public comment on the bills will be held at one or both of the meetings.

Mrs. Shelly Schumacher, Retirement Program Manager, reported on the Legislative Government Finance Committee (LGFC) that met on August 5, 2014. Gallagher & Co. provided a presentation on the actuarial review

that was done for PERS. The Committee reviewed a bill draft which would close the PERS defined benefit plan for new hires effective January 1, 2016. New hires after that date would be in a defined contribution plan.

**ADJOURNMENT:**

With no further business to come before the Board, President Gessner adjourned the meeting at 2:25 p.m.

Respectfully Submitted:

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Mr. Mike Gessner, President  
Teachers' Fund for Retirement Board

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Darlene Roppel  
Reporting Secretary

# Memorandum

**TO: TFFR Board of Trustees**

**FROM: Fay Kopp**

**DATE: September 18, 2014**

**SUBJ: BOARD EDUCATION: ND Education Demographics**

As you know, the TFFR Board will be conducting an actuarial experience study in the 2014-15 fiscal year. This study compares plan assumptions with actual experience over the past 5 years, and projects future experience.

In the past, the ND Department of Public Instruction (DPI) has assisted the board by providing general information and projections about the effect current and future student population growth is expected to have on the number of teachers/licensed personnel needed in the future (10-20-30 years). This, of course, translates into how many active contributing TFFR members will be paying into and collecting benefits from TFFR in the future. For example, 10 years ago, TFFR was projecting a decline in active teacher population, 5 years ago we changed the assumption to no decline/flat growth. Going forward, we may want to include an increase in active membership.

Jerry Coleman, Director of School Finance and Organization with DPI, will be at the Board meeting to present information on past, present, and projected future teacher and student demographic changes in ND, and any other information they may have to assist the TFFR Board in its study.

# ND Teachers' Fund for Retirement Board Meeting

September 25, 2014  
Peace Garden Room, State Capitol  
Bismarck, North Dakota

Presentation by Jerry Coleman  
School Finance – Director  
Department of Public Instruction

## ND K-12 Education Demographics

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*DEPARTMENT OF PUBLIC INSTRUCTION*  
*Kirsten Baesler, State Superintendent*  
*600 East Boulevard Avenue Dept. 201*  
*Bismarck, North Dakota 58505-0440*

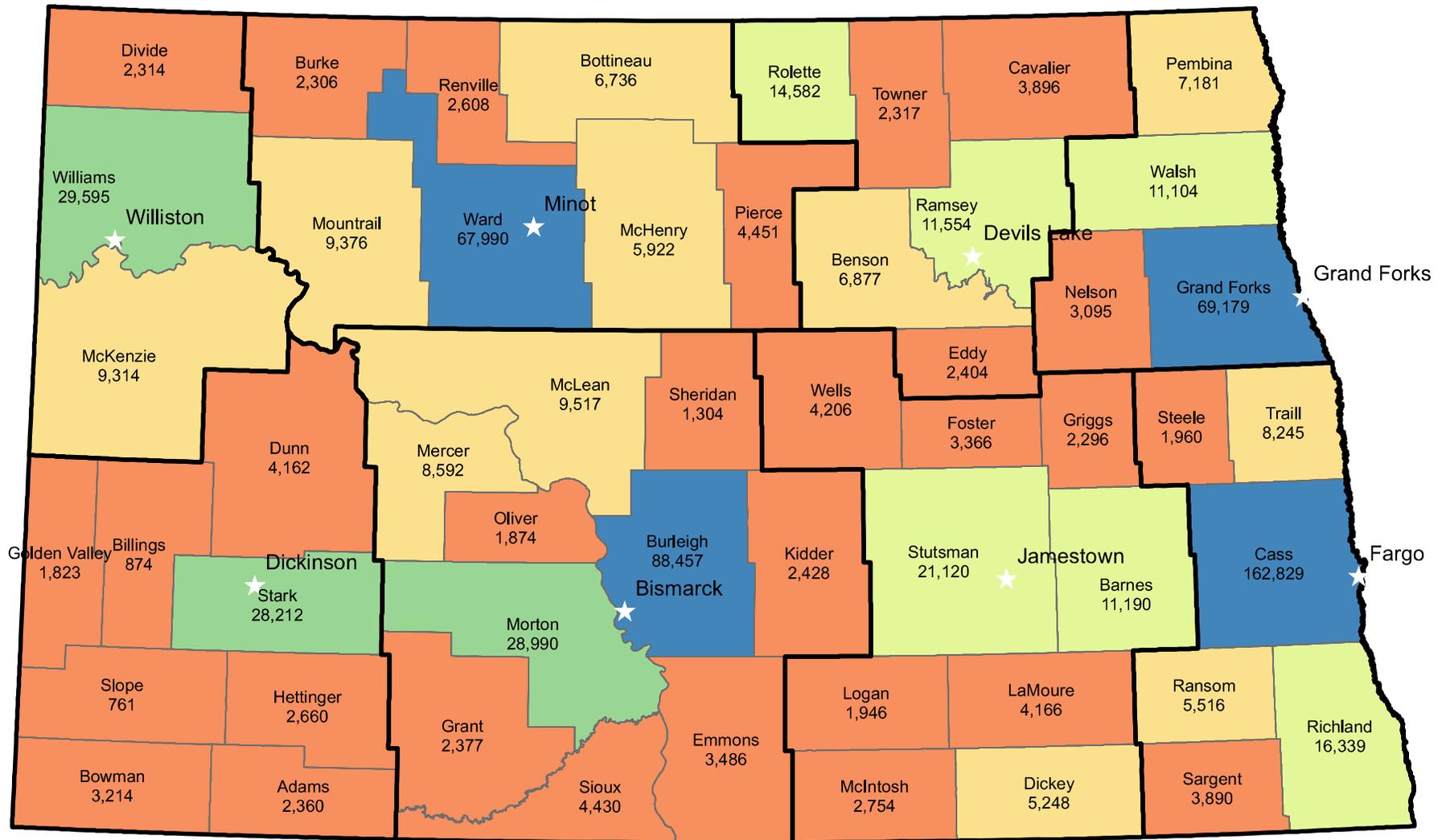
# ND K-12 2013-14 Statistics

	Public Districts	Non-Public	State Institutions	BIE	Sp Ed Units	Vo Ed Centers	Total
LEAs	180	40	4	5	31	12	272
Schools	371	49	4	6	0	0	430
K-12 Enrollment	101,656	6,458	92	1,670	0	0	109,876
Licensed Staff	10,116	680	72	221	374	124	11,587
Non-licensed Staff	5,953	526	74	172	222	49	6,996
Graduates	6,616	319	32	30	0	0	6,997

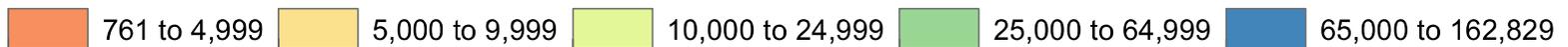
# ND Population Historical Overview

1930	680,845
1940	641,935
1950	619,636
1960	632,446
1970	617,761
1980	652,717
1990	638,800
2000	642,200
2010	672,591
<b>2013 (est.)</b>	<b>723,393</b>

# COUNTY POPULATION ESTIMATES 2013

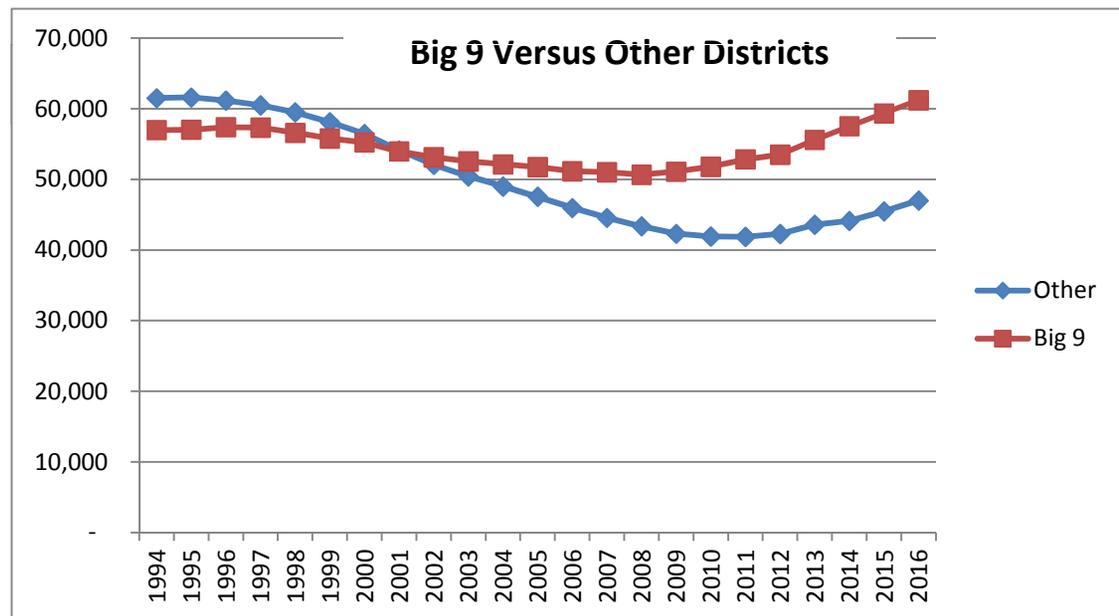
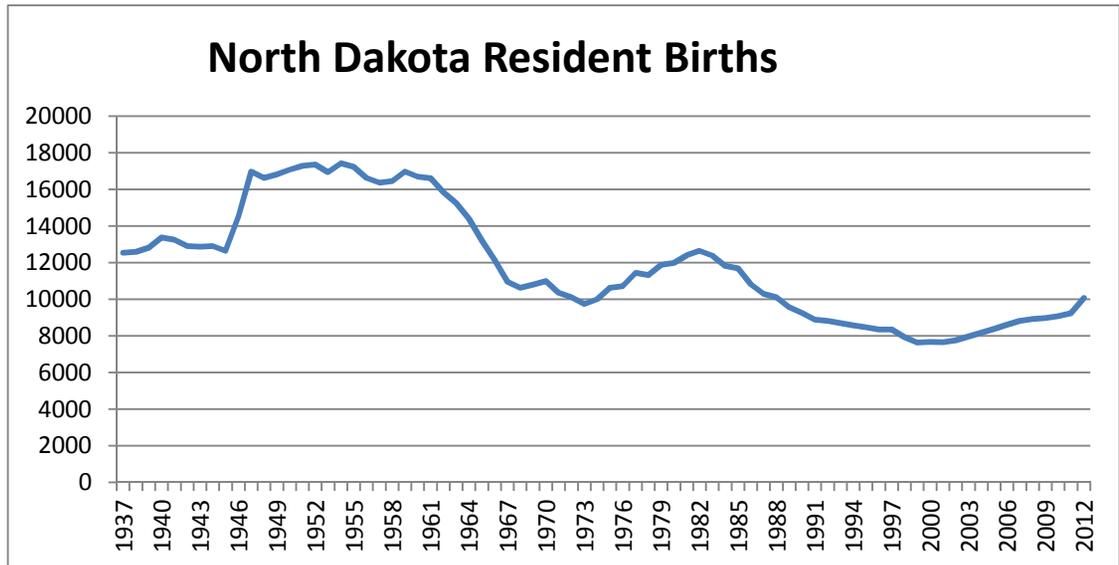


Statewide Population Estimate: 723,393



## North Dakota Public K-12 Enrollment

School Year	Sum of DENK12 Column Labels		
	Other	Big 9	Grand Total
1994	61,515	56,997	118,512
1995	61,604	57,045	118,649
1996	61,158	57,407	118,565
1997	60,484	57,332	117,816
1998	59,504	56,599	116,103
1999	58,111	55,818	113,929
2000	56,460	55,245	111,705
2001	54,120	53,974	108,094
2002	52,082	53,135	105,217
2003	50,444	52,569	103,013
2004	49,000	52,137	101,137
2005	47,568	51,756	99,324
2006	45,958	51,162	97,120
2007	44,560	51,040	95,600
2008	43,379	50,678	94,057
2009	42,306	51,100	93,406
2010	41,914	51,801	93,715
2011	41,878	52,851	94,729
2012	42,274	53,504	95,778
2013	43,590	55,602	99,192
2014	44,116	57,540	101,656
2015	45,476	59,352	104,827
2016	47,005	61,223	108,228



Big 9 - Fargo, Bismarck, Grand Forks, West Fargo, Minot, Mandan, Dickinson, Williston, Jamestown (enr. over 2,000).

Prepared by School Finance, 01/2014

2015 and 2016 projected using 5 year cohort survival routine

North Dakota Resident Births

County of Residence	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
ADAMS	19	16	23	15	15	18	18	25	17	22	17	29	19	20	30	27
BARNES	136	112	105	102	127	112	113	101	107	100	111	112	112	113	117	130
BENSON	122	135	129	126	134	145	147	153	168	149	147	122	131	143	162	137
BILLINGS	7	6	6	10	8	7	6	8	7	9	5	7	5	7	10	19
BOTTINEAU	49	51	51	45	62	62	62	64	63	65	64	64	62	75	60	73
BOWMAN	34	18	33	28	30	26	30	27	28	38	39	37	38	37	45	44
BURKE	9	17	17	18	19	17	15	18	24	15	20	20	21	25	36	32
BURLEIGH	827	809	881	865	858	918	948	956	1017	1055	1024	1069	1086	1134	1211	1224
CASS	1607	1634	1635	1727	1712	1843	1794	1934	2006	2055	2096	2170	2156	2239	2363	2463
CAVALIER	41	30	35	38	48	34	30	36	37	29	27	34	37	49	31	45
DICKEY	56	59	75	65	71	69	68	76	75	68	78	68	54	26	62	68
DIVIDE	11	12	11	19	15	13	18	13	20	18	9	19	18	26	23	33
DUNN	24	31	31	38	25	33	32	37	28	33	32	32	41	41	48	62
EDDY	32	27	26	21	18	28	21	22	27	27	21	23	24	19	27	28
EMMONS	42	30	29	36	34	38	27	34	29	34	24	22	33	20	25	29
FOSTER	46	40	29	31	33	41	34	50	46	39	27	32	28	25	38	39
GOLDEN VALLEY	16	15	15	19	13	13	17	8	16	11	22	17	19	19	23	20
GRAND FORKS	968	835	889	788	859	864	904	883	950	956	994	908	978	904	965	959
GRANT	24	19	17	27	14	10	17	20	22	11	20	21	22	23	22	33
GRIGGS	18	19	20	12	19	19	17	20	23	26	15	25	23	19	17	23
HETTINGER	22	28	18	18	15	17	23	16	17	15	20	21	27	30	25	41
KIDDER	17	27	27	22	24	24	14	29	22	28	21	24	32	21	29	31
LAMOURE	46	24	41	39	49	42	49	47	41	53	35	28	38	23	48	46
LOGAN	26	17	17	23	15	18	14	15	17	17	18	17	18	16	22	18
McHENRY	63	53	56	54	48	57	57	50	49	57	55	55	63	58	83	63
McINTOSH	24	28	32	23	27	18	29	34	20	27	25	24	33	14	25	30
McKENZIE	66	67	70	60	59	54	69	60	64	60	80	91	53	109	114	176
McLEAN	87	94	76	68	68	80	74	78	73	67	76	82	101	102	128	99
MERCER	78	69	74	81	71	67	67	69	93	66	74	107	99	92	99	102
MORTON	313	301	287	284	308	314	307	340	350	367	364	390	362	401	431	424
MOUNTRAIL	75	93	88	97	81	90	117	88	115	108	127	113	128	143	160	142
NELSON	26	21	34	28	28	20	31	17	29	19	22	28	32	33	29	33
OLIVER	13	17	13	17	16	16	16	19	7	24	18	18	16	20	18	26
PEMBINA	73	78	90	79	78	76	71	85	70	84	65	81	73	78	74	70
PIERCE	48	44	39	58	41	46	38	44	32	43	53	41	37	43	51	58
RAMSEY	156	132	144	156	150	135	136	138	154	139	162	141	167	172	141	143
RANSOM	69	56	55	55	63	70	62	69	60	70	70	54	61	61	73	53
RENVILLE	26	18	14	19	33	20	28	20	24	13	25	34	32	32	29	33
RICHLAND	203	206	196	185	227	187	207	213	190	206	203	184	191	95	183	190
ROLETTE	267	247	276	294	264	279	316	305	317	289	319	299	311	297	292	313
SARGENT	50	42	47	60	36	40	41	48	31	44	49	31	38	23	38	42
SHERIDAN	10	9	10	9	10	NR	NR	7	6	11	7	9	12	7	11	18
SIOUX	104	98	99	74	100	107	95	122	118	103	97	98	87	98	107	80
SLOPE	10	7	7	8	12	7	NR	6	0	9	6	16	11	7	8	12
STARK	262	266	249	251	242	269	302	256	265	290	289	306	301	339	398	484
STEELE	20	20	11	14	18	13	17	18	21	13	24	12	19	19	25	17
STUTSMAN	191	234	192	221	199	220	224	218	218	236	219	222	232	216	227	255
TOWNER	21	15	13	17	25	20	16	18	20	16	19	18	14	19	32	30
TRAILL	92	97	78	70	105	81	83	84	95	100	98	91	91	103	89	100
WALSH	159	154	147	131	125	126	109	144	138	139	146	132	122	114	144	149
WARD	951	875	856	876	855	903	985	968	1003	1039	1028	998	1070	1109	1210	1210
WELLS	35	45	45	36	39	32	33	35	36	36	30	43	29	43	44	35
WILLIAMS	239	238	218	207	210	213	224	236	246	306	284	305	353	372	471	580
Total	7930	7635	7676	7664	7755	7976	8179	8381	8616	8818	8931	8974	9088	9234	10072	10591

# Observations

- ND Demographics are changing.
- Enrollment in public schools declined by 25,000 students over a 15 year period ending 2010.
- School Districts declined by 70 over the same period.
- Teachers did not experience the same decline.
- Births reached a record low in 2001 and have been rising since then.
- Grades K-2 average 8,600, Grades 3-12 average 7,600.
- Statewide projections show moderate enrollment increases over the next decade. We expect enrollments to increase by 3,500 annually.
- 60% of ND students are served in ND's major cities where enrollments are expected to remain steady or increase slightly.
- Many small rural school districts will continue to experience declines.
- Impact from rapid oil development is still a big unknown.

ND Public K-12 Enrollment

Fall Enrollment Unduplicated Count

Note: Years after 2013-14 are projected.

County (All)

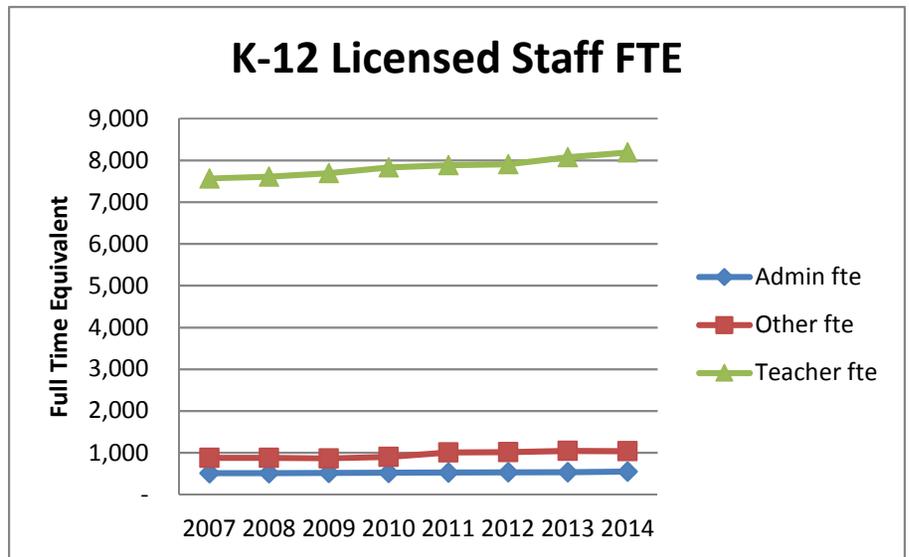
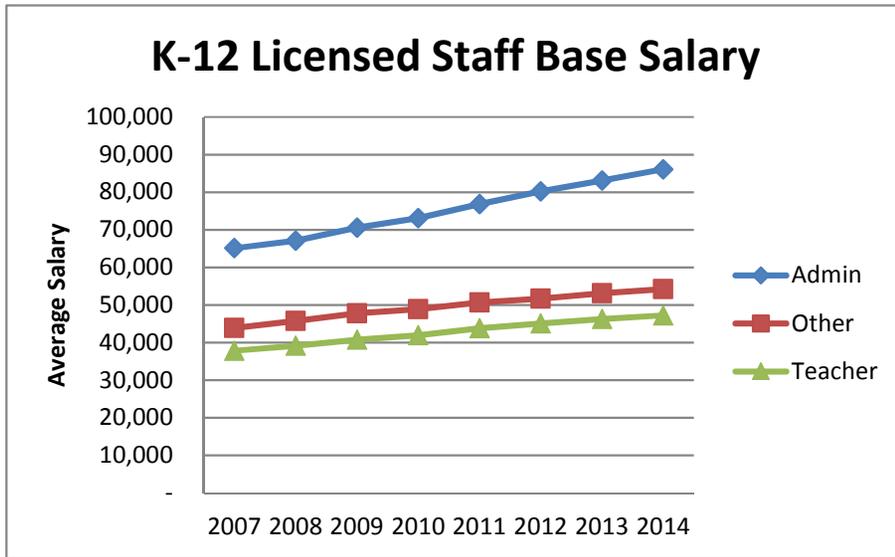
Row Labels	Values															
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Kindergarten	7,057	7,012	6,890	6,663	6,578	6,648	6,729	7,214	7,470	7,445	8,236	8,575	8,822	8,996	9,093	9,352
Grade 1	7,193	7,223	7,139	7,130	6,907	6,704	6,827	6,744	7,147	7,478	7,517	8,366	8,605	8,927	9,102	9,208
Grade 2	7,270	7,040	7,051	6,965	6,916	6,747	6,511	6,748	6,725	7,195	7,487	7,707	8,401	8,713	9,049	9,242
Grade 3	7,645	7,210	7,039	7,052	6,913	6,907	6,787	6,541	6,839	6,914	7,225	7,723	7,853	8,595	8,926	9,282
Grade 4	7,758	7,564	7,218	7,079	7,014	6,929	6,931	6,812	6,547	6,972	7,025	7,379	7,817	8,011	8,783	9,136
Grade 5	7,909	7,781	7,600	7,323	7,077	7,001	6,983	6,962	6,904	6,675	7,023	7,291	7,531	8,005	8,206	9,000
Grade 6	7,985	7,896	7,827	7,703	7,299	7,130	7,036	7,074	7,089	7,140	6,884	7,338	7,462	7,815	8,313	8,509
Grade 7	8,379	8,177	8,084	8,002	7,877	7,465	7,289	7,218	7,249	7,367	7,320	7,254	7,585	7,773	8,147	8,661
Grade 8	8,501	8,337	8,203	8,106	7,987	7,868	7,467	7,360	7,301	7,297	7,421	7,496	7,335	7,696	7,892	8,281
Grade 9	8,885	8,899	8,804	8,534	8,461	8,262	8,045	7,670	7,572	7,578	7,462	7,796	7,776	7,605	7,998	8,228
Grade 10	9,016	8,625	8,603	8,499	8,235	8,174	8,002	7,855	7,683	7,682	7,517	7,515	7,707	7,800	7,633	8,023
Grade 11	8,969	8,629	8,396	8,186	7,992	7,961	7,802	7,620	7,563	7,415	7,354	7,414	7,414	7,517	7,608	7,452
Grade 12	8,647	8,620	8,283	8,120	7,864	7,804	7,643	7,588	7,626	7,563	7,308	7,338	7,348	7,374	7,478	7,566
<b>Grand Total</b>	<b>105,214</b>	<b>103,013</b>	<b>101,137</b>	<b>99,362</b>	<b>97,120</b>	<b>95,600</b>	<b>94,052</b>	<b>93,406</b>	<b>93,715</b>	<b>94,721</b>	<b>95,779</b>	<b>99,192</b>	<b>101,656</b>	<b>104,827</b>	<b>108,228</b>	<b>111,940</b>

ND Teacher Base Salary and FTE History

School Year	Licensed FTE			Average Salary			Enr/FTE	
	Admin fte	Other fte	Teacher fte	Admin	Other	Teacher	K-12 Enr	Ratio
2007	516	882	7,568	65,118	43,887	37,840	95,600	10.7
2008	511	875	7,609	67,120	45,725	39,137	94,057	10.5
2009	517	866	7,697	70,608	47,794	40,750	93,406	10.3
2010	521	902	7,829	73,156	48,923	41,977	93,715	10.1
2011	528	1,006	7,881	76,885	50,635	43,852	94,729	10.1
2012	535	1,017	7,911	80,268	51,711	45,072	95,778	10.1
2013	533	1,045	8,076	83,074	53,124	46,275	99,192	10.3
2014	552	1,039	8,192	86,115	54,245	47,231	101,656	10.4

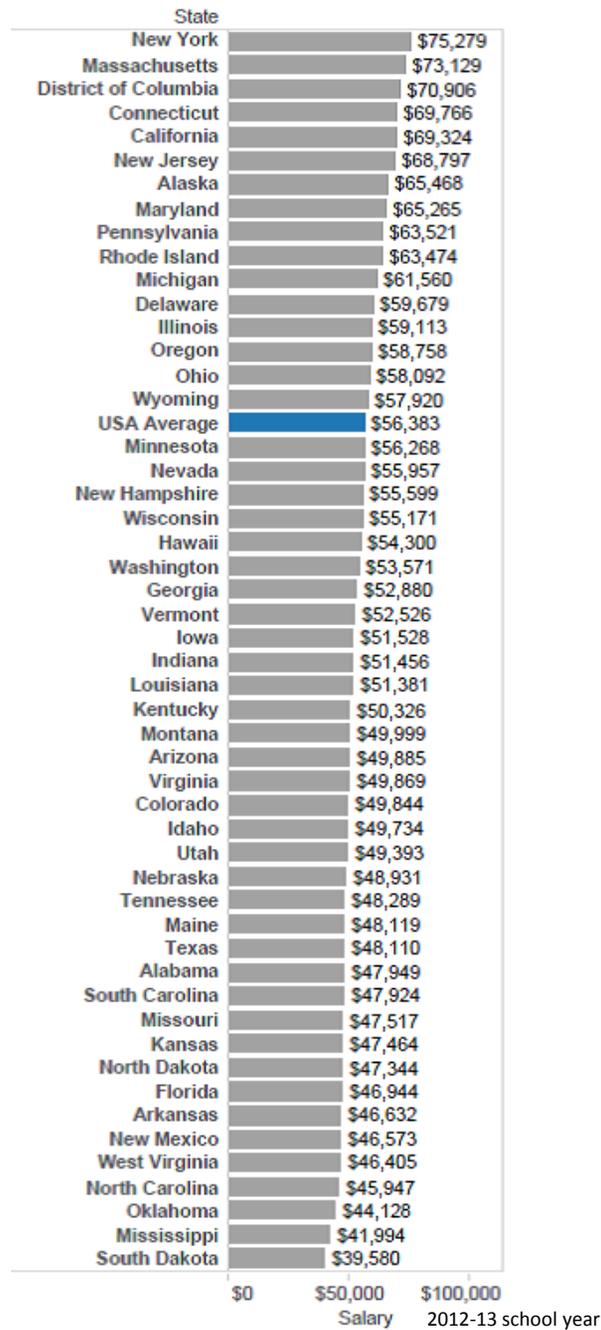
Licensed personnel (FTE)

- Teachers include classroom teachers, MR special education, SLD and ED, physical education, music, art, career and technology, Title I and any other type of teacher.
- Other licensed staff includes assistant directors, coordinators, counselors or counselor designates, county superintendents and assistant or deputy county superintendents, directors, instructional programmers, library media specialist, pupil personnel, school psychologist, speech pathologist and supervisors.
- Administrators include principals and assistant principals, superintendents and assistant or deputy superintendents.





### Bars Sorted High to Low




[2013 Tables and Figures](#)
[All Years of Tables and Figures](#)
[Most Recent Full Issue of the Digest](#)
**Table 211.60. Estimated average annual salary of teachers in public elementary and secondary schools, by state: Selected years, 1969-70 through 2012-13**

State	Current dollars							Constant 2012-13 dollars <sup>1</sup>							Percent change, 1999-2000 to 2012-13
	1969-70	1979-80	1989-90	1999-2000	2009-10	2011-12	2012-13	1969-70	1979-80	1989-90	1999-2000	2009-10	2011-12	2012-13	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
<b>United States</b>	<b>\$8,626</b>	<b>\$15,970</b>	<b>\$31,367</b>	<b>\$41,807</b>	<b>\$55,202</b>	<b>\$55,418</b>	<b>\$56,383</b>	<b>\$52,830</b>	<b>\$47,592</b>	<b>\$57,152</b>	<b>\$57,133</b>	<b>\$58,925</b>	<b>\$56,340</b>	<b>\$56,383</b>	<b>-1.3</b>
Alabama	6,818	13,060	24,828	36,689	47,571	48,003	47,949	41,757	38,920	45,237	50,139	50,779	48,802	47,949	-4.4
Alaska	10,560	27,210	43,153	46,462	59,672	62,425	65,468	64,675	81,088	78,626	63,495	63,696	63,464	65,468	3.1
Arizona	8,711	15,054	29,402	36,902	46,952	48,691	49,885	53,350	44,862	53,571	50,430	50,119	49,501	49,885	-1.1
Arkansas	6,307	12,299	22,352	33,386	46,700	46,314	46,632	38,627	36,652	40,726	45,625	49,850	47,085	46,632	2.2
California	10,315	18,020	37,998	47,680	68,203	68,531	69,324	63,174	53,701	69,234	65,159	72,803	69,672	69,324	6.4
Colorado	7,761	16,205	30,758	38,163	49,202	49,049	49,844	47,532	48,292	56,042	52,153	52,520	49,865	49,844	-4.4
Connecticut	9,262	16,229	40,461	51,780	64,350	69,465	69,766	56,725	48,363	73,721	70,762	68,690	70,621	69,766	-1.4
Delaware	9,015	16,148	33,377	44,435	57,080	58,800	59,679	55,212	48,122	60,814	60,724	60,930	59,779	59,679	-1.7
District of Columbia	10,285	22,190	38,402	47,076	64,548	68,720	70,906	62,990	66,128	69,970	64,334	68,901	69,864	70,906	10.2
Florida	8,412	14,149	28,803	36,722	46,708	46,479	46,944	51,519	42,165	52,480	50,184	49,858	47,253	46,944	-6.5
Georgia	7,276	13,853	28,006	41,023	53,112	52,938	52,880	44,562	41,283	51,028	56,062	56,694	53,819	52,880	-5.7
Hawaii	9,453	19,920	32,047	40,578	55,063	54,070	54,300	57,895	59,363	58,391	55,453	58,777	54,970	54,300	-2.1
Idaho	6,890	13,611	23,861	35,547	46,283	48,551	49,734	42,198	40,562	43,475	48,578	49,404	49,359	49,734	2.4
Illinois	9,569	17,601	32,794	46,486	62,077	57,636	59,113	58,605	52,452	59,752	63,527	66,264	58,595	59,113	-6.9
Indiana	8,833	15,599	30,902	41,850	49,986	50,516	51,456	54,098	46,486	56,304	57,192	53,357	51,357	51,456	-10.0
Iowa	8,355	15,203	26,747	35,678	49,626	50,240	51,528	51,170	45,306	48,734	48,757	52,973	51,076	51,528	5.7
Kansas	7,612	13,690	28,744	34,981	46,657	46,718	47,464	46,620	40,797	52,372	47,805	49,804	47,496	47,464	-0.7
Kentucky	6,953	14,520	26,292	36,380	49,543	49,730	50,326	42,584	43,271	47,905	49,717	52,884	50,558	50,326	1.2
Louisiana	7,028	13,760	24,300	33,109	48,903	50,179	51,381	43,043	41,006	44,275	45,246	52,201	51,014	51,381	13.6
Maine	7,572	13,071	26,881	35,561	46,106	47,338	48,119	46,375	38,952	48,978	48,597	49,216	48,126	48,119	-1.0
Maryland	9,383	17,558	36,319	44,048	63,971	63,634	65,265	57,466	52,324	66,174	60,196	68,285	64,693	65,265	8.4
Massachusetts	8,764	17,253	34,712	46,580	69,273	71,721	73,129	53,675	51,415	63,246	63,656	73,945	72,915	73,129	14.9
Michigan	9,826	19,663	37,072	49,044	57,958	61,560	61,560	60,179	58,597	67,546	67,023	61,867	62,585	61,560	-8.2
Minnesota	8,658	15,912	32,190	39,802	52,431	54,959	56,268	53,026	47,419	58,651	54,393	55,967	55,874	56,268	3.4
Mississippi	5,798	11,850	24,292	31,857	45,644	41,646	41,994	35,510	35,314	44,261	43,535	48,722	42,339	41,994	-3.5
Missouri	7,799	13,682	27,094	35,656	45,317	46,406	47,517	47,765	40,773	49,366	48,727	48,373	47,178	47,517	-2.5
Montana	7,606	14,537	25,081	32,121	45,759	48,546	49,999	46,583	43,321	45,698	43,896	48,845	49,354	49,999	13.9
Nebraska	7,375	13,516	25,522	33,237	46,227	48,154	48,931	45,168	40,279	46,502	45,421	49,345	48,955	48,931	7.7
Nevada	9,215	16,295	30,590	39,390	51,524	54,559	55,957	56,437	48,560	55,736	53,830	54,999	55,467	55,957	4.0
New Hampshire	7,771	13,017	28,986	37,734	51,443	54,177	55,599	47,593	38,791	52,813	51,567	54,912	55,079	55,599	7.8
New Jersey	9,130	17,161	35,676	52,015	65,130	67,078	68,797	55,917	51,141	65,003	71,083	69,523	68,194	68,797	-3.2
New Mexico	7,796	14,887	24,756	32,554	46,258	45,622	46,573	47,746	44,364	45,106	44,488	49,378	46,381	46,573	4.7
New York	10,336	19,812	38,925	51,020	71,633	73,398	75,279	63,303	59,041	70,923	69,723	76,464	74,620	75,279	8.0
North Carolina	7,494	14,117	27,883	39,404	46,850	45,947	45,947	45,897	42,070	50,804	53,849	50,010	46,712	45,947	-14.7
North Dakota	6,696	13,263	23,016	29,863	42,964	46,058	47,344	41,010	39,525	41,936	40,810	45,862	46,825	47,344	16.0
Ohio	8,300	15,269	31,218	41,436	55,958	56,715	58,092	50,833	45,503	56,880	56,626	59,732	57,659	58,092	2.6
Oklahoma	6,882	13,107	23,070	31,298	47,691	44,391	44,128	42,149	39,060	42,034	42,772	50,907	45,130	44,128	3.2
Oregon	8,818	16,266	30,840	42,336	55,224	57,348	58,758	54,006	48,474	56,191	57,856	58,948	58,302	58,758	1.6
Pennsylvania	8,858	16,515	33,338	48,321	59,156	61,934	63,521	54,251	49,216	60,743	66,035	63,146	62,965	63,521	-3.8
Rhode Island	8,776	18,002	36,057	47,041	59,686	62,186	63,474	53,748	53,647	65,697	64,286	63,711	63,221	63,474	-1.3
South Carolina	6,927	13,063	27,217	36,081	47,508	47,428	47,924	42,424	38,929	49,590	49,308	50,712	48,217	47,924	-2.8
South Dakota	6,403	12,348	21,300	29,071	38,837	38,804	39,580	39,215	36,798	38,809	39,728	41,456	39,450	39,580	-0.4
Tennessee	7,050	13,972	27,052	36,328	46,290	47,082	48,289	43,178	41,637	49,290	49,645	49,412	47,866	48,289	-2.7
Texas	7,255	14,132	27,496	37,567	48,261	48,373	48,110	44,433	42,114	50,099	51,339	51,516	49,178	48,110	-6.3
Utah	7,644	14,909	23,686	34,946	45,885	48,159	49,393	46,816	44,430	43,157	47,757	48,980	48,961	49,393	3.4
Vermont	7,968	12,484	29,012	37,758	49,084	51,306	52,526	48,800	37,203	52,861	51,600	52,394	52,160	52,526	1.8
Virginia	8,070	14,060	30,938	38,744	50,015	48,703	49,869	49,425	41,900	56,370	52,947	53,388	49,514	49,869	-5.8
Washington	9,225	18,820	30,457	41,043	53,003	52,232	53,571	56,498	56,085	55,494	56,089	56,578	53,101	53,571	-4.5

West Virginia	7,650	13,710	22,842	35,009	45,959	45,320	46,405	46,852	40,857	41,619	47,843	49,059	46,074	46,405	-3.0
Wisconsin	8,963	16,006	31,921	41,153	51,264	53,792	55,171	54,894	47,699	58,161	56,239	54,721	54,687	55,171	-1.9
Wyoming	8,232	16,012	28,141	34,127	55,861	57,222	57,920	50,417	47,717	51,274	46,638	59,628	58,174	57,920	24.2

<sup>1</sup> Constant dollars based on the Consumer Price Index (CPI), prepared by the Bureau of Labor Statistics, U.S. Department of Labor, adjusted to a school-year basis. The CPI does not account for differences in inflation rates from state to state.

NOTE: Some data have been revised from previously published figures. Standard errors are not available for these estimates, which are based on state reports.

SOURCE: National Education Association, *Estimates of School Statistics*, 1969-70 through 2012-13. (This table was prepared April 2013.)

[2013 Tables and Figures](#)

[All Years of Tables and Figures](#)

[Most Recent Full Issue of the Digest](#)

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National Center for Education Statistics - <http://nces.ed.gov>  
U.S. Department of Education

## ND K-12 Statistical History

Values	SchoolYear									
	1985	1990	1995	2000	2005	2010	2011	2012	2013	
K Enrollment	10,060	9,540	8,591	7,144	6,578	7,446	8,236	8,575	8,822	
1-6 Enrollment	55,304	56,712	53,578	47,288	42,126	42,380	43,161	45,804	47,669	
7-8 Enrollment	17,763	17,886	19,629	17,099	15,864	14,662	14,740	14,750	14,920	
9-12 Enrollment	34,868	32,813	36,767	36,563	32,552	30,241	29,641	30,063	30,245	
Total K-12 Enrollment	117,995	116,951	118,565	108,094	97,120	94,729	95,778	99,192	101,656	
PK-12 Average Daily Membership	118,089	118,086	120,440	113,541	102,442	95,507	96,987	98,734	101,852	
Taxable Valuation	980,108,754	953,186,152	1,033,796,645	1,297,625,450	1,640,262,995	2,289,056,928	2,425,242,205	2,770,953,672	3,211,546,540	
Tax Value Per Enr Student	8,306	8,150	8,719	12,005	16,889	24,164	25,321	27,935	31,592	
General Fund Levy	83	157	190	190	195	117	115	110	73	
Total Levy	134	178	215	218	223	142	142	136	96	
Local Revenue	131,844,519	171,287,465	219,938,170	290,852,105	357,762,422	320,103,631	328,747,470	338,409,002	360,944,186	
County Revenue	10,276,625	7,738,155	6,688,209	8,385,633	11,879,607	18,702,824	19,211,010	22,393,601	22,916,937	
State Revenue	207,103,807	206,079,872	244,200,928	294,723,948	335,692,702	543,894,534	619,328,628	645,459,985	683,002,832	
Federal Revenue	27,326,469	35,743,089	55,086,311	80,210,981	116,450,652	237,943,277	151,993,630	135,307,358	125,445,311	
Other Revenue	2,499,509	14,547,246	5,161,923	5,530,335	7,421,068	8,918,894	10,999,435	9,597,225	12,421,232	
Total Revenue	379,050,929	435,395,827	531,075,541	679,703,003	829,206,450	1,129,563,159	1,130,280,172	1,151,167,172	1,204,730,498	
Salary and Benefits Teachers			282,353,364	346,442,201	426,362,218	528,460,823	562,292,523	586,164,727	623,286,079	
Salaries and Benefits Support			18,683,174	30,203,400	39,839,923	53,130,752	57,688,537	63,647,146	70,139,332	
Other Instructional Costs			35,487,146	49,350,474	59,565,722	85,498,905	83,675,416	79,682,431	73,731,104	
School Administration			24,832,551	31,399,874	38,639,476	48,622,939	52,085,236	55,549,170	59,938,702	
General Administration			34,255,994	43,336,328	52,873,840	67,988,403	72,252,831	72,522,073	82,095,422	
Operation and Maint. of Plant			48,130,295	58,509,445	71,786,826	107,168,997	110,579,804	106,413,805	117,342,113	
Instructional Expenditures	323,110,029	381,754,753	443,742,524	559,241,723	689,068,005	890,870,819	938,574,347	963,979,351	1,026,532,752	
Student Transportation			25,561,473	28,974,079	34,113,162	46,946,136	47,706,364	53,552,434	56,038,569	
Capital Projects			2,701,004	3,256,395	9,838,403	35,376,260	28,982,468	16,837,511	18,144,668	
Extracurricular			10,330,772	14,526,349	19,734,585	23,762,799	25,126,106	26,406,257	26,077,977	
All Other Expenditures			44,999,087	60,364,826	70,923,885	77,164,763	91,372,887	82,559,369	89,542,297	
General Fund Expenditures	379,647,548	449,216,615	527,334,861	666,363,372	823,678,041	1,074,120,777	1,131,762,173	1,143,334,923	1,216,336,262	
Gen Fund Ending Balance	108,921,087	94,066,388	97,611,970	149,322,288	168,281,374	281,248,544	279,486,294	290,404,090	278,590,960	
District Count	312	280	243	231	206	184	183	181	180	
Cost of Ed Per Student	2,736	3,233	3,684	4,925	6,726	9,328	9,677	9,763	10,079	

# North Dakota K-12 School Funding Formula

In 2013, the state implemented a K-12 funding formula tied to the cost of providing an adequate education and funded it with a combination of state and local taxes. Local property tax levy authority was decreased significantly with statewide taxes making up the difference. Statewide taxes are now funding approximately 80% of the cost of education.

The local share is 60 mills on taxable valuation and 75%-100% of other local in-lieu of property tax revenue. The state funds the remainder up to the adequate amount.

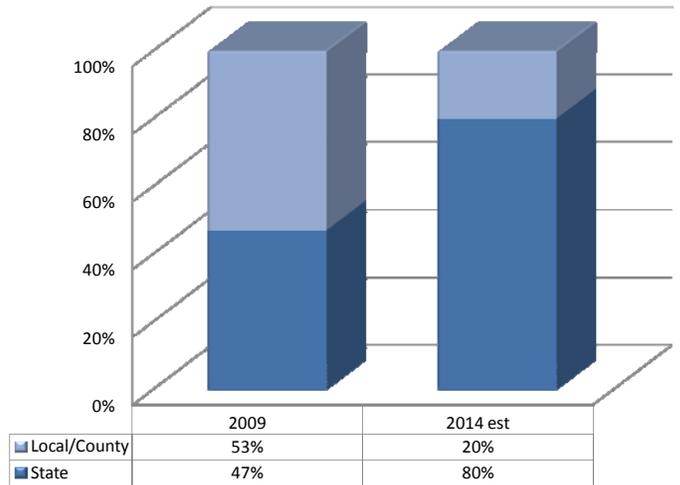
The formula is student driven and uses various weights to account for the increased costs associated with school district size and serving students with special needs. A base per student funding rate is set by the legislature designed to generate the resources necessary to educate students to state standards. In addition, there are transitional adjustments included to minimize budget impacts that inevitably occur when making major changes.

In the end, North Dakota’s K-12 funding formula provides a base of financial support per student sufficient to provide an adequate education by school districts, regardless of where the student lives or what the taxable valuation is of the district.

The Legislature, through the interim Education Funding Committee, contracted with Picus-Odden and Associates to conduct a recalibration study to confirm the adequacy of that base level of support.

The consultants use an evidenced – based (EB) model to determine the resources necessary to educate students to college and career ready proficiency. Included in the model are all of the components necessary to meet the standards. This includes core staffing, administration, operations, professional development, technology and instruction materials. Their report was presented to the Interim Education Funding Committee in June, 2014. The report can be found in the meeting minutes at <http://www.legis.nd.gov/assembly/63-2013/interim/15-5088-03000-meeting-minutes.pdf?20140918075541>.

Shift in State and Local General Fund Sources



K-12 School Funding Formula		
<i>Part One: Calculate Base Funding Amount</i>		Example
	Student Membership (ADM)	300
+	Other Program Weighted ADM	30
=	Weighted ADM	330
x	School District Size Factor	1.13
=	Weighted Student Units	373
x	Per Student Rate	9,092
=	Total Formula Amount	3,391,316
+/-	Transition Adjustments	-
=	Total Adjusted Formula Amount	3,391,316
<i>Part Two: Determine State Aid Payment</i>		
Local Share	60 mills times taxable valuation	600,000
	75%-100% of other local in-lieu revenue	60,000
State Share	Difference is State Aid Payment	2,731,316



*Ward County experienced the largest percentage increase in the age range 20 – 34 of the state four largest counties, gaining an estimated 27 percent from 2010 to 2013. Ward is estimated to have gained almost twice as many male residents as female residents during this timeframe.*

*ND Census Office*

**Joe Cicha**  
Census Specialist

**Phone** 701-328-7283  
**E-mail** jcicha@nd.gov  
**Web** www.NDCensus.gov

*continued from page 1*

Data from the Census Bureau indicates an increase in employment of workers in the age range 25 – 34 by more than 35 percent between 2009 and 2013. In 2009 there were about 14,000 individuals age 19 through 34 that were employed in the mining, transportation and construction industries in the state. By 2013 that number had more than doubled. The majority of this increase appears to be among male workers.

This changed a long-term trend in employment in the state where traditionally there had been more females employed than males prior to 2010. The overall number of male employees appears to have surpassed the number of female employees in 2013 by about 50,000 in North Dakota.

When we compare North Dakota to other states, it appears we are second only to Alaska in the highest percentage of individuals age 20 – 34 years of age in 2013. Individuals in this age range represent just under a quarter of North Dakota's total population as of the summer of 2013.

When we look at the smaller 5-year age ranges North Dakota has nearly 70,000 individuals in the age range 20 – 24, this is the highest percentage of any state at nearly 10 percent of the state total population. The state does not have as high a percentage of individuals in the age ranges 25 – 30 and 30 – 34. However, the available census data indicates are that individuals throughout the ages 19 to 34 are moving into the state and tending to stay, establishing residence as North Dakotans.

## Eastern Urban Counties Have More Young Adults

Not surprisingly the county with the highest density of young adults (age 20 – 34) is Cass County, the state's most densely inhabited county with an estimated 48,000 residents in age range of 20 – 34. Grand Forks

was second with 22,000; and Ward County was third with nearly 20,000 individuals in this age range. Ward County also holds the distinction of having the highest number of male residents over female residents in

this age range. Burleigh County, even though it is the state's second largest in overall population, comes in fourth behind Ward County with less than 20,000 residents in the age range 20 – 34.

North Dakota Department of Commerce  
1600 E. Century Ave., Suite 2  
Bismarck, ND 58503 | 701.328.5300

More info on North Dakota:

Tourism  
Experience ND  
Economic Development & Finance  
Workforce Development  
Community Services



# Memorandum

**TO: TFFR Board of Trustees**

**FROM: Fay Kopp**

**DATE: September 18, 2014**

**SUBJ: BOARD EDUCATION: ND Teacher Shortage**

North Dakota's teacher shortage has been widely publicized, and school districts are challenged to find qualified teachers to teach an increasing number of students.

Janet Welk, Executive Director of the Education Standards and Practices Board (ESPB), will be at the Board meeting to present information on ND teacher shortages, how ESPB determines critical shortage areas, what school districts are doing to address teacher shortages, etc.

Education Standards and Practices Board

# **EDUCATOR SHORTAGES 2014-2015**

# AUTHORITY

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- × Administrative Code
- × 67.1-02-04-01
- × Alternative Licenses
- × Educator Program Completers
- × Openings
- × Out of State Applicants

# ALTERNATIVE ACCESS LICENSE

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- ✘ Must have major in content area to be taught.
- ✘ Federal government with NCLB required completion of educator preparation program within three (3) years in 2001.
- ✘ Letter from school administrator indicating shortage of applicants that were regularly prepared, explain application process, and number of applicants.

# BENEFITS OF SHORTAGE DESIGNATION

- ✘ Teacher Candidate-loan forgiveness and additional time to complete testing requirements
- ✘ Districts-available applicants to fill unfilled positions
- ✘ Retiree-return to work and continue receiving benefits.
- ✘ Classroom students- not a benefit.

# ND SHORTAGES TO 2014-2015

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## × 1998-2001

- + All areas with the exception of elementary education, physical education, and social studies.

## × 2001-2002

- + All areas with the exception of elementary education and physical education.

## × 2014-2015

- + All areas.

# EDUCATOR PREPARATION PROGRAMS

- ✘ Valley City State University (132)-top preparer of teachers in 2012-2013
- ✘ University of North Dakota(129)
- ✘ Minot State University (103)
- ✘ North Dakota State University (88)
- ✘ Mayville State University (64)
- ✘ Dickinson State University (61)
- ✘ University of Mary (46)
- ✘ University of Jamestown (29)

# EDUCATOR PREPARATION PROGRAMS

- ✘ Turtle Mountain Community College (5)
- ✘ Fort Berthold Community College, United Tribes, and Sitting Bull College had no grads during 2012-2013

# PROGRAM COMPLETERS

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- ✘ 2013- 660 with 311 in elementary education
- ✘ Range of program completers from 816 in 1994 to 660 in 2013. (See handout.)

# LICENSES ISSUED

Year	Initial Licenses	Out of/ Other State	Total
1996	735	0	735
1997	822	0	822
1998	892	0	892
1999	803	0	803
2000	803	68	871
2001	645	193	838
2002	669	198	867
2003	506	229	735
2004	603	241	844
2005	630	242	872
2006	697	306	1003
2007	489	294	783
2008	539	279	818
2009	540	283	823
2010	673	234	907
2011	468	323	791
2012	577	159	736
2013	527	662	1189
2014	586	690	1276

# ALTERNATE ACCESS LICENSE NUMBERS

Year	Licenses
1995	0
1996	19
1997	4
1998	4
1999	9
2000	8
2001	13
2002	14
2003	29
2004	31
2005	26
2006	38
2007	51
2008	40
2009	43
2010	39
2011	47
2012	38
2013	38
2014	47

US Department of Education

# NATIONAL EDUCATOR SHORTAGE LIST

Teacher Shortage Areas  
Nationwide Listing  
**1990-1991 through 2014-2015**

March 2014

U.S. Department of Education  
Office of Postsecondary Education



# NATIONAL SHORTAGE AREAS

## NORTH DAKOTA

### × 1990- 1991 and 1991- 1992

- × English (9-12)
- × French (9-12)
- × Music (K-12)
- × Spanish (9-12)
- × Vocational Agriculture (9-12)

### × 1992 - 1993

- × French (9-12)
- × Music (K-12)
- × Spanish (9-12)

### × 1993 - 1994

- × Chemistry
- × Music
- × Spanish

### × 1994 - 1995

- × Biology
- × Chemistry

### × 1995 - 1996 through 1999 - 2000

- × No TSA proposal submitted

### × 2000- 2001 through 2002- 2003

- × Computer Education
- × Health Careers
- × Music
- × Special Education

### × 2003 - 2004

- × Agriculture
- × Art
- × Business and Office Technology
- × Business Education
- × Career Education
- × Computer Education
- × Diversified Occupations
- × Driver and Traffic Safety Education
- × English Language Arts
- × Family and Consumer Sciences
- × Health
- × Health Careers
- × Information Technology
- × Languages
- × Marketing Education
- × Mathematics
- × Music
- × Physical Education
- × Science
- × Social Studies
- × Special Education Programming
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

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× **2004 - 2005**

- × Subject Areas (Grades 9-12)
- × Agriculture Education
- × Art
- × Career Clusters
- × Driver and Traffic Safety
- × Family and Consumer Science
- × Health
- × Music
- × Science
- × Special Education Programming
- × Trade and Industrial Education

× **2005 - 2006**

- × Subject Areas (Grades 9-12)
- × Art
- × Computer Education
- × Driver and Traffic Safety Education
- × English Language Arts/English as a Second Language
- × Family and Consumer Science
- × Health
- × Health Careers
- × Language/Native American Languages
- × Music
- × Science
- × Special Education Programming
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

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× **2006 - 2007**

- × Subject Areas (Grades 9-12)
- × Art
- × Business and Office Technology/Business Education
- × Career Education
- × Diversified Occupations
- × Driver and Traffic Safety Education
- × English Language Arts/English as a Second Language
- × Family and Consumer Science
- × Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Music
- × Science
- × Social Studies
- × Special Education Programming
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

× **2007- 2008**

- × Subject Areas (Grades 9-12)
- × Agriculture
- × Art
- × Business and Office Technology/Business Education
- × Career Clusters
- × Diversified Occupations
- × Driver and Traffic Safety Education
- × English Language Arts/English as a Second Language
- × Family and Consumer Science
- × Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Music
- × Science
- × Social Studies
- × Special Education Programming
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

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× **2008 - 2009 and 2009 - 2010**

- × Subject Areas (Grades 9-12)
- × Agriculture
- × Art
- × Business and Office Technology/Business Education
- × Career Clusters
- × Computer Education
- × Driver and Traffic Safety Education
- × English Language Arts/English as a Second Language
- × Family and Consumer Science
- × Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Music
- × Science
- × Social Studies
- × Special Education Programming
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

× **2010 - 2011**

- × Subject Areas (Grades 9-12)
- × Agriculture Education
- × Art
- × Business and Office Technology/Business Education
- × Career Clusters
- × Computer Education
- × Diversified Occupations
- × Driver and Traffic Safety Education
- × English Language Arts/English as a Second Language
- × Family and Consumer Science
- × Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Music
- × Physical Education
- × Science
- × Social Studies
- × Special Education Programming
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

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× **2011 - 2012**

- × Subject Areas (Grades 9-12)
- × Agriculture Education
- × Art
- × Business and Office Technology/Business Education
- × Career Clusters
- × Computer Education
- × Diversified Occupations
- × Driver and Traffic Safety Education
- × English as a Second Language
- × English Language Arts
- × Family and Consumer Science
- × Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Science
- × Social Studies
- × Special Education Programming
- × Trade and Industrial Education

× **2012 - 2013**

- × Statewide Academic Disciplines or Subject Matter
- × Agriculture Education
- × Art
- × Business and Office Technology (Business Education)
- × Career Clusters
- × English as a Second Language
- × English Language Arts
- × Family and Consumer Science Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Music
- × Physical Education
- × Science
- × Social Studies
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

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× **2013 - 2014**

- × Statewide Academic Disciplines or Subject Matter
- × Art
- × Business and Office Technology (Business Education)
- × Career Clusters
- × English as a Second Language
- × English Language Arts
- × Family and Consumer Science Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Music
- × Science
- × Social Studies
- × Special Education Programming
- × Trade and Industrial Education

× **2014 - 2015**

- × Statewide Academic Disciplines or Subject Matter
- × Agriculture Education
- × Art
- × Business and Office Technology (Business Education)
- × Career Clusters
- × Computer Education
- × English as a Second Language
- × English Language Arts
- × Family and Consumer Science Health Careers
- × Information Technology
- × Languages/Native American Languages
- × Marketing Education
- × Mathematics
- × Music
- × Science
- × Social Studies
- × Special Education Programming
- × Technology Education (Industrial Arts)
- × Trade and Industrial Education

# 2014-2015 SCHOOL YEAR

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- ✘ Dr. Aimee Copas, Executive Director, for North Dakota Council of Education Leaders surveyed the districts the first of August, 2014.
  - + 102 elementary positions open
  - + 98 secondary positions open
  - + She reported it wasn't just in the Bakken, but state wide.

# ESPB PREVIOUS WORK TO ALLEVIATE SHORTAGES

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- ✘ 2009 changed school counseling to K-12 and dropped the need to be prepared as a classroom teacher.
- ✘ 2011 changed requirements for special education teachers.
  - + No longer double major.
  - + Allowed anyone with either a major or endorsement to work with any child with a disability-no longer categorical state.

# ESPB PREVIOUS WORK

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- × Substitute teachers.

- + 2001 allowed anyone with a bachelor's degree to become substitute teacher

- + 2012 changed the requirement for substitute teachers to two years of post secondary work

- × 2013 we issued 454 licenses to “interim substitutes”

- × 2014 we issued 660 licenses to “interim substitutes”

# ESPB WORKING TO ALLEVIATE SHORTAGES

## × Other State Educator License

- + 2011 legislation-regular program completer and valid license from another state
- + 2013 legislation-all endorsements on valid license
  - × Other states have multiple ways to grant endorsements
  - × Joe from CA
- + Praxis Endorsement (July 1, 2014) regular program completer with valid ND license for two years.

# PRAXIS ENDORSEMENT—JULY 1, 2014

- ✘ Must have completed a regular preparation program holding a valid ND license for two years or have a valid license from another state to be eligible.
  - + Challenge the Praxis Content tests. If changing levels of preparation from elementary to secondary, must also complete the pedagogical (PLT) test.
  - + July 31, 2014-19 successful completers
  - + August 30, 2014-19 successful completers

# OPPORTUNITIES FOR PEOPLE PURSUING EDUCATION DEGREES

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- ✘ Online programs-
  - + VCSU-most all programs.
  - + UND-Counseling and Special Education
  - + Mayville State-Early Childhood
  - + NDSU/UND Ed Leader cohorts
  - + Many other programs nation wide.
- ✘ Transition to Teaching Program-VCSU

# UNFILLED POSITIONS

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- ✘ North Dakota Center for Distance Education
- ✘ On-line programs
- ✘ IVN
- ✘ Sharing staff
- ✘ Districts paying student teachers while completing degrees so they will stay
- ✘ Districts paying rent stipends or owning property to rent to staff

# CONSEQUENCES OF SHORTAGES

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- ✘ Salaries are going up-Ray \$52,000
- ✘ Teachers breaching contracts to move to better district.
- ✘ Educators that are not profession ready entering classrooms.
- ✘ Standards are lowered and student achievement is affected, possibly.....more to come.

# Memorandum

**TO: TFFR Board of Trustees**

**FROM: Fay Kopp**

**DATE: September 18, 2014**

**SUBJ: Legislative Update**

There have been two interim legislative meetings since the Board last met.

## **Legislative Government Finance Committee (LGFC)**

The LGFC met on September 10, 2014. The Committee accepted the final report from Gallagher & Co. on the actuarial review conducted for the Committee on the PERS plan. PERS' actuarial consultant from Segal was also at the meeting to respond to questions about actuarial assumptions used. The Committee is continuing to discuss a bill draft that would close the PERS defined benefit plan on January 1, 2016 and require all new state employees to participate in the PERS defined contribution plan.

The Committee is also discussing a draft concurrent resolution which would amend the ND Constitution relating to the foundation aid stabilization fund. It would allow the Legislative Assembly to appropriate or transfer certain funds from the foundation aid stabilization fund for addressing existing or anticipated unfunded benefit obligations of state retirement funds, low interest school construction loans, or other education-related purposes.

The Committee's next meeting has not yet been scheduled.

## **Legislative Employee Benefits Programs Committee (LEBPC)**

The LEBPC is meeting on September 18, 2014. A copy of the meeting agenda, TFFR Bill No. 140 draft actuarial analysis, proposed amendment, and testimony is attached.

Their next meeting is on October 29 at which time the Committee will receive the results of TFFR's 2014 actuarial valuation report from Segal.

Enclosures

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Tentative Agenda

**EMPLOYEE BENEFITS PROGRAMS COMMITTEE**

Thursday, September 18, 2014  
Harvest Room, State Capitol  
Bismarck, North Dakota

9:00 a.m. Call to order  
Roll call  
Consideration of the minutes of the June 5, 2014, meeting

**RECRUITMENT AND RETENTION BONUS REPORT**

9:05 a.m. Presentation by Mr. Kenneth I. Purdy, Human Resource Management Services, Office of Management and Budget, of a report on the implementation, progress, and bonuses provided by state agency programs to provide bonuses to recruit or retain employees in hard-to-fill positions  
Committee discussion

**PUBLIC EMPLOYEES RETIREMENT SYSTEM**

9:20 a.m. Presentation by Mr. Doug Anderson, Arthur J. Gallagher & Co., of an actuarial audit of the Public Employee Retirement System (PERS) retirement plans and review of projections of year closing  
Committee discussion

10:20 a.m. Break

**BILL DRAFTS**

10:35 a.m. Technical comments, public input, and committee discussion and directives on public employees benefits bills

**Public Employees Retirement System**

Bill Draft No. 136 updates references to the Internal Revenue Code and modifies the Highway Patrolmen's retirement plans and the PERS retirement benefits, health insurance plans, life insurance benefits, and employee assistance benefits coverage [[15.0136.01000](#)]

Bill Draft No. 137 increases employer and employee contributions under the PERS defined benefit and defined contribution plans, decreases employee contributions under PERS for peace officers employed by the Bureau of Criminal Investigation, and provides benefit changes for employees first enrolled after December 31, 2015 [[15.0137.01000](#)]

Bill Draft No. 79 provides a health insurance mandate to provide parity in reimbursement for telemedicine services and provides for a cost-benefit analysis report [[15.0079.02000](#)]

Bill Draft No. 117 provides a health insurance mandate to provide parity in coverage of cancer treatment medications [[15.0117.02000](#)]

Bill Draft No. 43 provides a three-month opportunity for employees in the defined contribution plan to opt to participate in the defined benefit plan [[15.0043.01000](#)]

**Teachers' Fund for Retirement**

Bill Draft No. 140 updates references to the Internal Revenue Code [[15.0140.01000](#)]

**State Investment Board**

Bill Draft No. 135 modifies investment policies for and funds under the management of the State Investment Board [[15.0135.01000](#)]

### **Adjutant General**

Bill Draft No. 139 revises the retirement contribution law for National Guard security officers and repeals the law relating to National Guard firefighters [[15.0139.01000](#)]

12:00 noon Luncheon recess

**NOTE:** The committee may work through lunch or may break late for lunch; therefore, the afternoon times on the agenda are subject to change

1:00 p.m. Continuation of bill drafts agenda item

1:45 p.m. Presentation by Mr. Sparb Collins, Executive Director, Public Employees Retirement System, on the uniform group insurance program actuarial projections for the 2015-17 biennium

Committee discussion

2:00 p.m. Adjourn

### **Committee Members**

Senators: Dick Dever (Chairman), Spencer Berry, Ralph Kilzer, Karen K. Krebsbach, David O'Connell, Connie Triplett

Representatives: Randy Boehning, Roger Brabandt, Jason Dockter, Jessica Haak, Scott Louser, Kenton Onstad, Don Vigesaa

Staff Contact: Jennifer S. N. Clark, Counsel

**NDTFFR Legislative Proposal – Bill No. 15.0140.01000**

**LEGISLATIVE COUNCIL EMPLOYEE BENEFITS PROGRAMS COMMITTEE  
September 18, 2014**

**Fay Kopp, Chief Retirement Officer - Deputy Executive Director  
ND Retirement and Investment Office - ND Teachers' Fund for Retirement**

Bill No. 140 was submitted by the TFFR Board in March 2014. The bill as currently written updates certain dates to stay current with federal IRC tax law changes as they relate to qualified governmental pension plans. TFFR is required to follow federal tax law in order to maintain its status as a qualified governmental plan.

TFFR's actuarial and benefit consultant, Segal, has reviewed the bill (letter attached), and noted that the plan should be reviewed to determine whether any amendments are needed in order to comply with a recent U.S. Supreme Court ruling in *United States v. Windsor* relating to same-gender marriages. The TFFR Board (jointly with the PERS Board) hired outside tax counsel to conduct a legal analysis to determine what TFFR statutes and operations are implicated by that Supreme Court decision, and subsequently issued IRS guidance, including Rev. Ruling 2013-17. In the *Windsor* decision, the Supreme Court ruled that for purposes of federal law, the term "spouse" shall include both same-sex and opposite-sex spouses. The primary effect of this decision and the subsequent issued IRS guidance for TFFR to maintain its status as a qualified plan is that for federal tax purposes only, a same-sex spouse must be treated the same as an opposite-sex spouse, although for state benefit design purposes, North Dakota may continue to distinguish same-sex spouses from opposite-sex spouses.

Outside tax counsel has identified specific areas of potential IRS concern such as how TFFR administers rollovers of death benefits, benefit limitations, and required minimum distributions. TFFR statutes require the plan to follow federal tax law in these areas. Outside tax counsel has recommended that specific dates be removed from TFFR statutes since it appears to limit the reference to the IRC section to a specific date and time. Such a limitation could raise IRS interpretation questions since that date predates the *Windsor* decision or subsequent IRS guidance.

In reviewing this recommendation with TFFR's legal counsel from the Attorney General's Office and Legislative Council, it was found that Art. X, Sec. 3, of the ND Constitution, allows adoption by reference of federal income tax laws as amended in the future.

Consequently, the TFFR Board has approved a proposed amendment to Bill No. 140 (attached) to remove all IRC date references, and to add "as amended" language to clearly indicate that future IRC changes are intended to be incorporated.

Technical comments from TFFR's actuarial consultant on the amended version of Bill No. 140 will be provided at the Committee's October 2014 meeting.

**Section 1. NDCC 15-39.1-04 (10) Definitions: Eligible Retirement Salary**

Increases the maximum annual compensation limit that can be used in benefit calculations (\$260,000 in 2014). No active TFFR member currently has a salary large enough to be affected by this limit.

**Section 2. NDCC 15-39.1-10(4) Eligibility for benefits**

Provision relates to minimum distribution requirements requiring payment of retirement benefits at age 70.5 or termination of employment, whichever is later.

**Section 3. NDCC 15-39.1-10.6 Benefit limitations**

Increases the Section 415 maximum annual benefit limit (\$210,000 in 2014). To date, no retiree's benefit has exceeded the annual benefit limit.

**Section 4. NDCC 15-39.1-20 Withdrawal from Fund**

Provides that a member or a member's beneficiary may elect to have an eligible rollover distribution paid to an eligible retirement plan as allowed under IRC regulations.

**Section 5. NDCC 15-39.1-24 (8) and (11) Purchase of additional credit**

Provides for purchase of up to 5 years of nonqualified service credit and acceptance of eligible rollover distributions and transfers from eligible retirement plans as allowed under IRC regulations.

**Section 6. NDCC 15-39.1-34 Internal Revenue Code compliance**

Requires the board to administer the TFFR plan in compliance with various sections of the IRC and regulations as they apply to governmental plans.



101 North Wacker Drive Suite 500 Chicago, IL 60606-1724  
T 312.984.8500 www.segalco.com

September 12, 2014

Senator Dick Dever, Chairman  
Employee Benefits Program Committee  
c/o Jennifer Clark  
North Dakota Legislative Council  
State Capitol  
600 East Boulevard  
Bismarck, ND 58505

Re: **Technical Comments on Draft Bill No. 15.0140.01000**

Dear Senator Dever:

As requested, we reviewed draft Bill No. 15.0140.01000, which proposes technical and administrative changes to the North Dakota Teachers' Fund for Retirement (TFFR). The following presents our analysis of such proposed changes found in the draft bill.

**Summary:** The proposed legislation updates federal compliance provisions of the plan regarding Internal Revenue Code sections 401(a)(17), 401(a)(9), 401(a)(31) and 415(b) and (d) in various sections of the North Dakota Century Code (NDCC), chapter 15-39.1 (Sections 1, 2, 3 and 4). In addition, the proposed legislation updates Internal Revenue Code sections relating to salary reduction or salary deferral amounts, including sections 125, 132(f), 401(k), 403(b), 414(h) and 457.

**Actuarial Cost Analysis:** This bill would have an immaterial actuarial cost impact on the TFFR.

**Technical Comments:** Our comments on the bill are as follows:

**General Comments**

The bill makes various provisions of the plan consistent with current federal income tax laws. The provisions of this bill do not appear to directly or significantly impact the benefits payable from the TFFR.

### **Compliance Issues**

The bill amends various sections of the North Dakota Century Code, chapter 15-39.1 to change references under Internal Revenue Code section 401(a)(9), section 401(a)(17) (as well as Code references related to the definition of compensation under section 401(a)(17)), section 401(a)(31) and section 415(b) and (d) from the Code language in effect on August 1, 2013 to the language in effect on August 1, 2015. No material changes have been made to these Internal Revenue Code sections since August 1, 2013, other than the statutory indexing of dollar amounts set forth in Code sections 401(a)(17) and 415(b).

You may wish to determine whether an amendment to the TFFR is necessary to comply with the Supreme Court ruling in *United States v. Windsor* relating to same-gender marriage and the definition of spouse for purposes of federal tax laws. Pursuant to IRS Notice 2014-19, if such amendment is necessary or desirable, the plan amendment must be effective June 26, 2013 (unless an earlier effective date is selected), and governmental plans must be amended no later than the close of the first legislative session of the legislative body with the authority to amend the plan that ends after December 31, 2014. The IRS Notice suggests that, even if a plan amendment is not required, a clarifying amendment may help ensure proper plan operations in the future.

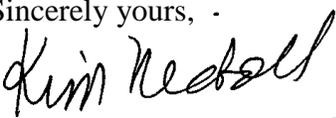
### **Administrative Issues**

In determining whether an amendment for the *Windsor* decision is necessary or desirable, it may be important to review plan operations to ensure that as of June 26, 2013 spouses of participants in legal same-gender marriages have been treated as spouses for all required federal law purposes under the TFFR.

The information contained in this letter is provided within our role as the plan's actuary and benefits consultant and is not intended to provide tax or legal advice. We recommend that you address all issues described herein with your legal counsel.

Please contact us if you have any questions or comments.

Sincerely yours, -



Kim M. Nicholl, FSA, EA, FCA  
Senior Vice President & Actuary



Melanie Walker, JD  
Vice President

cc: Fay Kopp  
Matthew Strom

PROPOSED AMENDMENTS TO BILL NO. 15.0140.01000

Page 1, line 2, remove the second “and” and insert a comma

Page 1, line 2, after 15-39.1-20, insert “subsections 8 and 11 of section 15-39.1-24, and section 15-39.1-34”

Page 1, line 13, overstrike “in effect on August 1,”

Page 1, line 13, replace “2015” with “as amended”

Page 1, line 18, overstrike “in effect on August 1,”

Page 1, line 18, replace “2015” with “as amended”

Page 1, line 19, overstrike “in effect on August 1,”

Page 1, line 20, replace “2015” with “as amended”

Page 2, line 23, overstrike “in effect on August 1,”

Page 2, line 23, replace “2015” with “as amended”

Page 2, line 30, overstrike “in effect on August 1,”

Page 2, line 30, replace “2015” with “as amended”

Page 3, line 2, overstrike “subsequent to August 1,”

Page 3, line 2, replace “2015” with “as amended”

Page 3, line 31, overstrike “in effect on August 1,”

Page 3, line 31, replace “2015” with “as amended”

Page 3, after line 31, insert

**“SECTION 5. AMENDMENT.** Subsections 8 and 11 of section 15-39.1-24 of the North Dakota Century Code are amended and reenacted as follows:

8. A teacher who has at least five years of teaching service credit in the fund may purchase credit not based on service for use toward retirement eligibility and benefits. The purchase of service credit for

such nonqualified service as defined under section 415(n) of the Internal Revenue Code, as amended, is limited to an aggregate of five years.

11. The fund may accept eligible rollovers, direct rollovers, and trustee-to-trustee transfers from eligible retirement plans specified under Internal Revenue Code section 402(c)(8) (B), as amended, to purchase refunded service credit under section 15-39.1-15 and to purchase additional service credit under section 15-39.1-24. The board shall adopt rules to ensure that the rollovers and transfers comply with the requirements of the Internal Revenue Code and internal revenue service regulations. The total amount rolled over or transferred into the fund may not exceed the amount due to purchase service credit.

**SECTION 6. AMENDMENT.** Section 15-39.1-34 of the North Dakota Century Code is amended and reenacted as follows:

**15-39.1-34. Internal Revenue Code compliance.**

The board shall administer the plan in compliance with section 415, section 401(a)(9), section 401(a)(17), and section 401(a)(31) of the Internal Revenue Code, as amended, and regulations adopted pursuant to those provisions as they apply to governmental plans.”

Renumber accordingly

**BILL NO.**

Introduced by

(At the request of the Teachers' Fund for Retirement)

1 A BILL for an Act to amend and reenact subsection 10 of section 15-39.1-04, subsection 4 of  
2 section 15-39.1-10, and sections 15-39.1-10.6 and 15-39.1-20 of the North Dakota Century  
3 Code, relating to the incorporation of federal law changes for the definition of salary, eligibility  
4 for normal retirement benefits, benefit limitations, and withdrawal from the fund under the  
5 teachers' fund for retirement.

6 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

7 **SECTION 1. AMENDMENT.** Subsection 10 of section 15-39.1-04 of the North Dakota  
8 Century Code is amended and reenacted as follows:

9 10. "Salary" means a member's earnings in eligible employment under this chapter for  
10 teaching, supervisory, administrative, and extracurricular services during a plan year  
11 reported as salary on the member's federal income tax withholding statements plus  
12 any salary reduction or salary deferral amounts under 26 U.S.C. 125, 132(f), 401(k),  
13 403(b), 414(h), or 457 in effect on August 1, ~~2013~~2015. "Salary" includes amounts  
14 paid to members for performance of duties, unless amounts are conditioned on or  
15 made in anticipation of an individual member's retirement or termination. The annual  
16 salary of each member taken into account in determining benefit accruals and  
17 contributions may not exceed the annual compensation limits established under  
18 26 U.S.C. 401(a)(17)(B) in effect on August 1, ~~2013~~2015, as adjusted for increases in  
19 the cost of living in accordance with 26 U.S.C. 401(a)(17)(B) in effect on August 1,  
20 ~~2013~~2015. A salary maximum is not applicable to members whose participation began  
21 before July 1, 1996. "Salary" does not include:

22 a. Fringe benefits or side, nonwage, benefits that accompany or are in addition to a  
23 member's employment, including insurance programs, annuities, transportation

- 1 allowances, housing allowances, meals, lodging, or expense allowances, or other  
2 benefits provided by a member's employer.
- 3 b. Insurance programs, including medical, dental, vision, disability, life, long-term  
4 care, workforce safety and insurance, or other insurance premiums or benefits.
- 5 c. Payments for unused sick leave, personal leave, vacation leave, or other unused  
6 leave.
- 7 d. Early retirement incentive pay, severance pay, or other payments conditioned on  
8 or made in anticipation of retirement or termination.
- 9 e. Teacher's aide pay, referee pay, busdriver pay, or janitorial pay.
- 10 f. Amounts received by a member in lieu of previously employer-provided benefits  
11 or payments that are made on an individual selection basis.
- 12 g. Signing bonuses as defined under section 15.1-09-33.1.
- 13 h. Other benefits or payments not defined in this section which the board  
14 determines to be ineligible teachers' fund for retirement salary.

15 **SECTION 2. AMENDMENT.** Subsection 4 of section 15-39.1-10 of the North Dakota  
16 Century Code is amended and reenacted as follows:

- 17 4. Retirement benefits must begin no later than April first of the calendar year following  
18 the year the member attains age seventy and one-half or April first of the calendar  
19 year following the year the member terminates covered employment, whichever is  
20 later. Payments must be made over a period of time which does not exceed the life  
21 expectancy of the member or the joint life expectancy of the member and the  
22 beneficiary. Payment of minimum distributions must be made in accordance with  
23 section 401(a)(9) of the Internal Revenue Code in effect on August 1, ~~2013~~2015, and  
24 the regulations issued under that section, as applicable to governmental plans.

25 **SECTION 3. AMENDMENT.** Section 15-39.1-10.6 of the North Dakota Century Code is  
26 amended and reenacted as follows:

27 **15-39.1-10.6. Benefit limitations.**

28 Benefits with respect to a member participating under former chapter 15-39 or chapter  
29 15-39.1 or 15-39.2 may not exceed the maximum benefits specified under section 415 of the  
30 Internal Revenue Code [26 U.S.C. 415] in effect on August 1, ~~2013~~2015, for governmental  
31 plans. The maximum dollar benefit applicable under section 415(b)(1)(A) of the Internal

1 Revenue Code must reflect any increases in this amount provided under section 415(d) of the  
2 Internal Revenue Code subsequent to August 1, ~~2013~~2015. If a member's benefit is limited by  
3 these provisions at the time of retirement or termination of employment, or in any subsequent  
4 year, the benefit paid in any following calendar year may be increased to reflect all cumulative  
5 increases in the maximum dollar limit provided under section 415(d) of the Internal Revenue  
6 Code for years after the year employment terminated or payments commenced, but not to more  
7 than would have been payable in the absence of the limits under section 415 of the Internal  
8 Revenue Code. If an annuitant's benefit is increased by a plan amendment, after the  
9 commencement of payments, the member's benefit may not exceed the maximum dollar benefit  
10 under section 415(b)(1)(A) of the Internal Revenue Code, adjusted for the commencement age  
11 and form of payment, increased as provided by section 415(d) of the Internal Revenue Code. If  
12 this plan must be aggregated with another plan to determine the effect of section 415 of the  
13 Internal Revenue Code on a member's benefit, and if the benefit must be reduced to comply  
14 with section 415 of the Internal Revenue Code, then the reduction must be made pro rata  
15 between the two plans, in proportion to the member's service in each plan.

16 **SECTION 4. AMENDMENT.** Section 15-39.1-20 of the North Dakota Century Code is  
17 amended and reenacted as follows:

18 **15-39.1-20. Withdrawal from fund.**

19 When a member of the fund ceases to be eligible under the terms of this chapter to  
20 participate in the fund, the member may, after a period of one hundred twenty days, withdraw  
21 from the fund and is then entitled to receive a refund of assessments accumulated with interest.  
22 The one-hundred-twenty-day requirement may be waived by the board when it has evidence  
23 the teacher will not be returning to teach in North Dakota. The refund is in lieu of any other  
24 benefits to which the member may be entitled under the terms of this chapter, and by accepting  
25 the refund, the member is waiving any right to participate in the fund under the same provisions  
26 that existed at the time the refund was accepted regardless of whether the member later  
27 repurchases refunded service credit. A member or a beneficiary of a member may elect, at the  
28 time and under rules adopted by the board, to have any portion of an eligible rollover  
29 distribution paid directly in a direct rollover to an eligible retirement plan specified by the  
30 member or the beneficiary to the extent permitted by section 401(a)(31) of the Internal Revenue  
31 Code in effect on August 1, ~~2011~~2015.

# Annual TFFR Investment Report

SIB Update

September 25, 2014

Dave Hunter

Executive Director/Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

# Executive Summary for periods ended June 30, 2014

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**Investment Performance** – TFFR generated a net return of 16.5% during the last year and a 9.1% net return over the last 30 years. During the last 5 years, TFFR generated a “Callan Gross Return” of 13.5% which ranked in the 1<sup>st</sup> quartile of the Callan Public Fund Sponsor Database.

**Risk Update** – During the “Last 5 Years”, Pension Risk (as measured by standard deviation) has declined by nearly 70% from 10.5% to 3.2%. TFFR’s peer risk rating has migrated from the 1<sup>st</sup> quartile (or 21<sup>st</sup> percentile) for the “Last 5 Years” to the 3<sup>rd</sup> quartile (or 52<sup>nd</sup> percentile) for the “Last Year” (noting that a lower standard deviation is generally preferred).

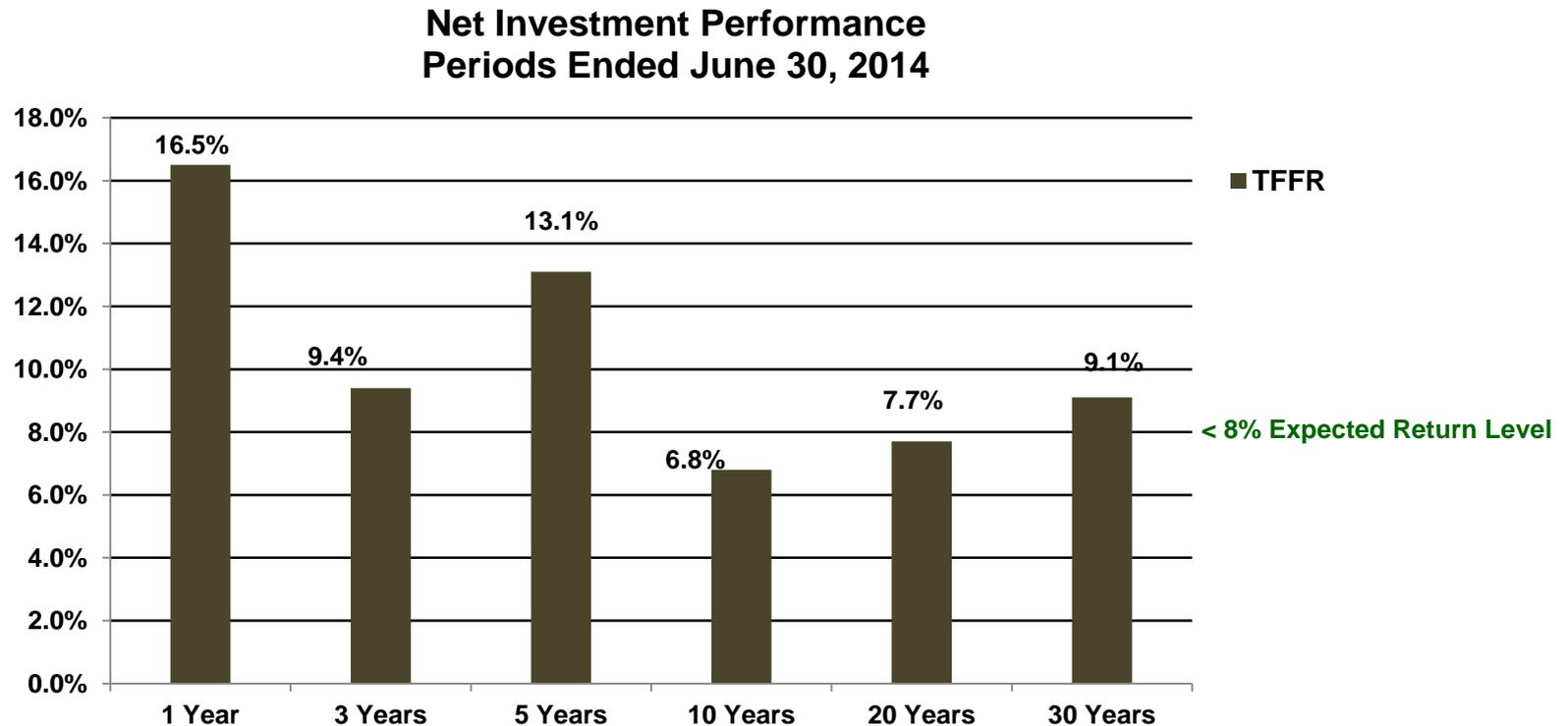
**Client Level Reporting** – RIO has worked with Callan to develop enhanced performance reporting for SIB’s five largest clients including TFFR. As a result of these enhancements, net investment returns have been restated to reflect the recognition of intra-month cash flows during the last four years.

	FY2013	FY2012	FY2011	Periods Ended 6/30/13				
				3 Years	5 Years	10 Years	20 Years	30 Years
TFFR - Revised	13.57%	-1.12%	24.05%	11.68%	2.85%	7.09%	6.97%	8.91%
TFFR - Original	13.63%	-0.97%	24.21%	11.81%	2.92%	7.12%	6.99%	8.93%
Change	-0.06%	-0.15%	-0.16%	-0.13%	-0.07%	-0.03%	-0.02%	-0.02%

**RIO Staffing** – A new audit supervisor is scheduled to join the RIO staff on October 13, 2014 (subject to passing the state mandated employee background check).

**Fee Update** – Investment management fees and expenses as a % of average assets under management declined by 14% during the past year due to lower performance fees, a 25% increase in average SIB client assets under management and structural fee savings.

**TFFR's net investment returns have exceeded the key 8% actuarial rate of return assumption during the last 1-, 3-, 5- and 30-year periods.**

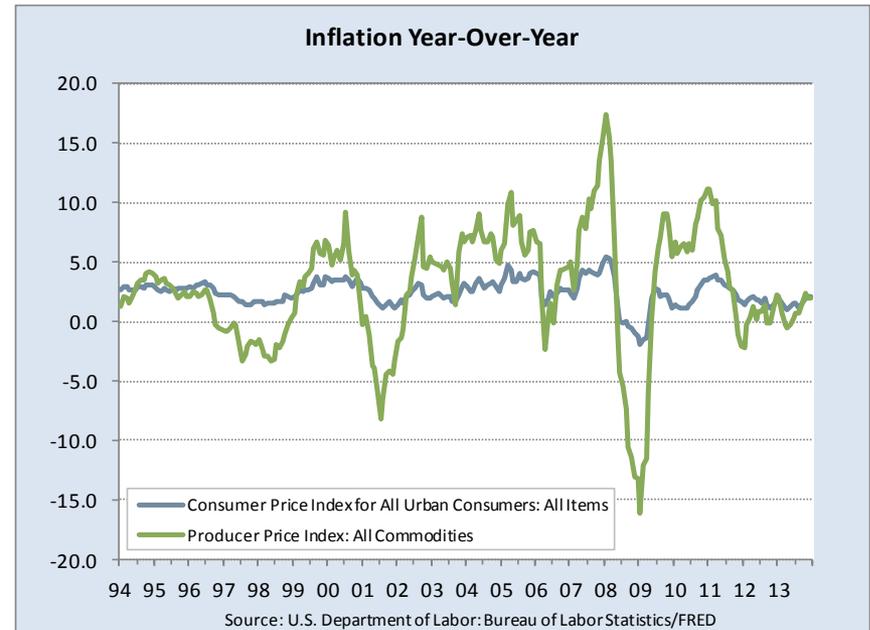
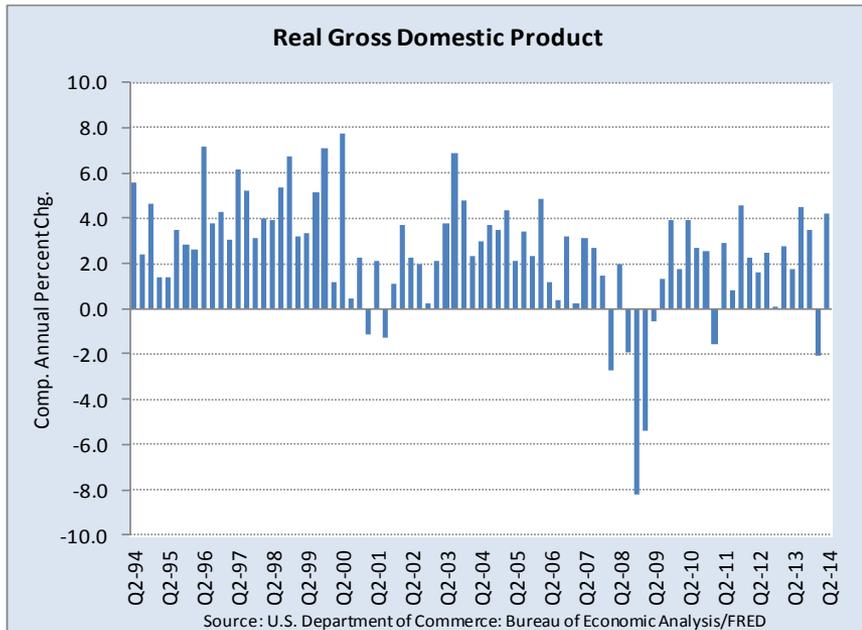


**TFFR generated net returns of 13.1% over the last five years and 9.1% during the last 30 years.**

*Note: Investment returns are deemed to be materially accurate, but are unaudited and subject to change.*

# U.S. Economy

## Quarter Ending June 30, 2014



- ▶ The Federal Reserve scaled Quantitative Easing (“QE”) down to \$35B/month in June from \$55B/month in April and the QE program is slated to end in October unless there is a surprise in the economy.
- ▶ 2<sup>nd</sup> quarter GDP was up 4.2%, a dramatic improvement from -2.1% in the first quarter.
- ▶ June headline and core CPI increased over the trailing year by 2.1% and 1.9%, respectively.
- ▶ The unemployment rate declined from 6.7% at the end of the last quarter to 6.1%.
- ▶ Labor market shows strength with the addition of 298,000 jobs in June, well above consensus.

Source: Callan

# Asset Class Performance

## Periods Ending June 30, 2014

- ▶ Emerging markets ranked 1<sup>st</sup> for the last quarter, up 6.7%
- ▶ S&P 500 gained 5.2% for the quarter and 24.6% for the trailing year
- ▶ Barclays Aggregate rose 2.0% for the quarter and 4.4% for the trailing year
- ▶ International equities lagged domestic equities over every time period shown

As of 9/12/14	QTD	YTD
S&P 500	0.93%	8.07%
Russell 2000	-2.57%	0.62%
EAFE	-3.42%	1.36%
EM	3.01%	9.33%
BC Agg	-0.28%	3.65%

Periodic Table of Investment Returns  
for Periods Ended June 30, 2014

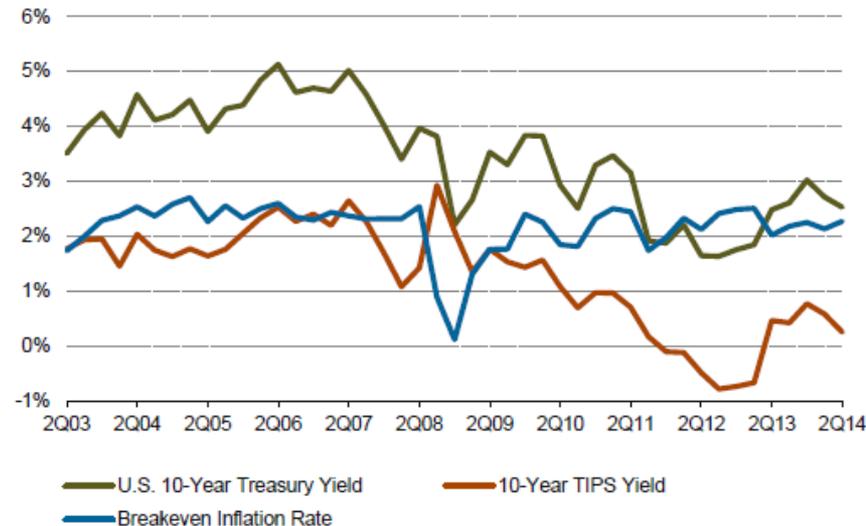
Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
MSCI:Emer Markets 6.7%	S&P:600 Small Cap 25.5%	S&P:600 Small Cap 16.8%	S&P:600 Small Cap 22.0%	MSCI:Emer Markets 12.3%
S&P:500 5.2%	S&P:500 24.6%	S&P:500 16.6%	S&P:500 18.8%	S&P:600 Small Cap 9.9%
MSCI:EAFE US\$ 4.1%	MSCI:EAFE US\$ 23.6%	MSCI:EAFE US\$ 8.1%	MSCI:EAFE US\$ 11.8%	S&P:500 7.8%
S&P:600 Small Cap 2.1%	MSCI:Emer Markets 14.7%	Barclays:Aggregate Index 3.7%	MSCI:Emer Markets 9.6%	MSCI:EAFE US\$ 6.9%
Barclays:Aggregate Index 2.0%	Barclays:Aggregate Index 4.4%	3 Month T-Bill 0.1%	Barclays:Aggregate Index 4.9%	Barclays:Aggregate Index 4.9%
3 Month T-Bill 0.0%	3 Month T-Bill 0.1%	MSCI:Emer Markets (0.1%)	3 Month T-Bill 0.1%	3 Month T-Bill 1.6%

Source: Callan

# Yield Curve Changes

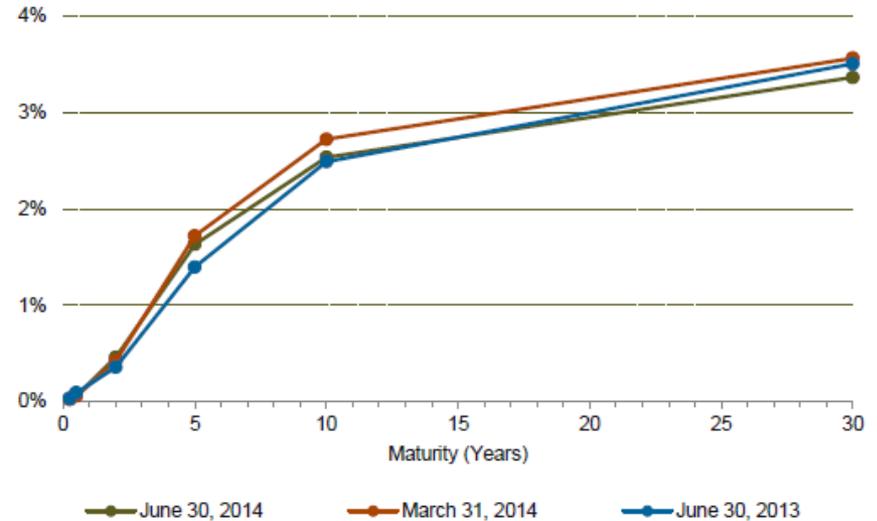
## Periods Ending June 30, 2014

Historical 10-Year Yields



Source: Bloomberg

U.S. Treasury Yield Curves



Source: Bloomberg

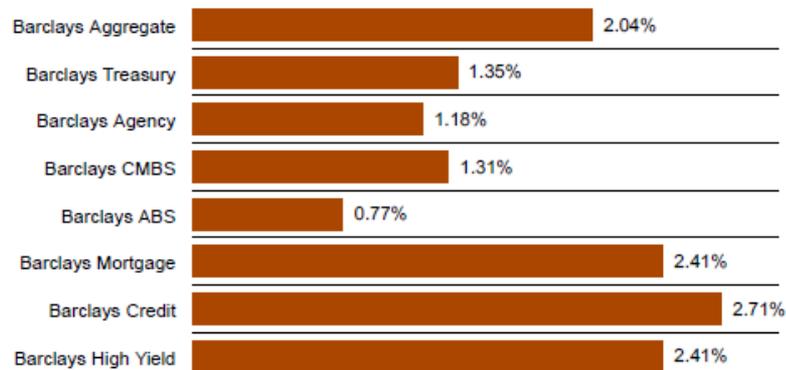
- ▶ A flattening of the yield curve helped long-term Treasury returns.
- ▶ Ten-year Treasury yields declined 19 basis points from last quarter ending at 2.53%.
- ▶ TIPS returned 3.8% in the quarter, exceeding the Barclays Aggregate return of 2.0%

Source: Callan

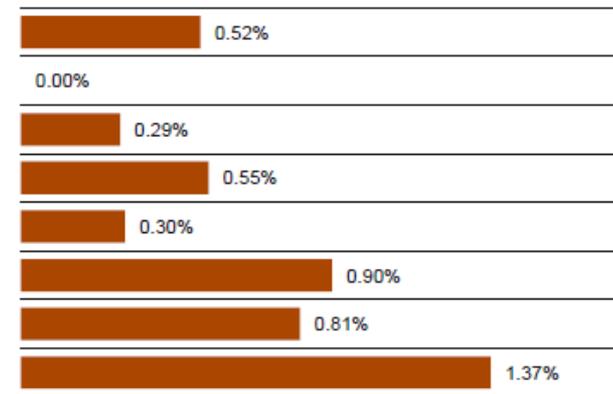
# Total Rates of Return by Bond Sector

## Quarter Ending June 30, 2014

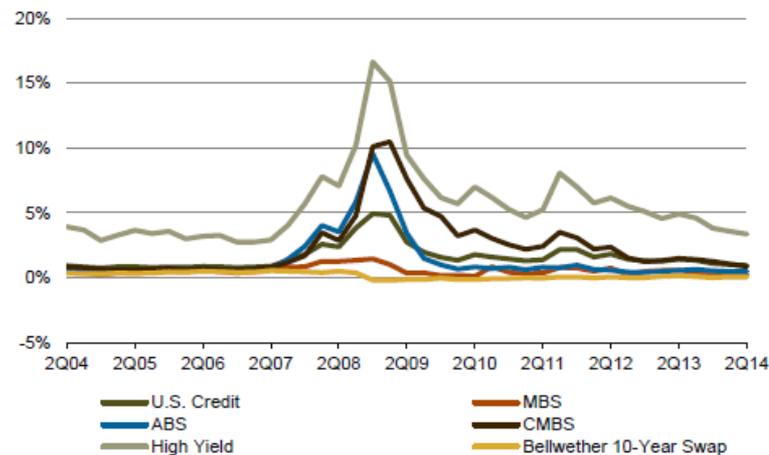
### Absolute Returns



### Excess Return versus Like-Duration Treasuries



### Effective Yield Over Treasuries

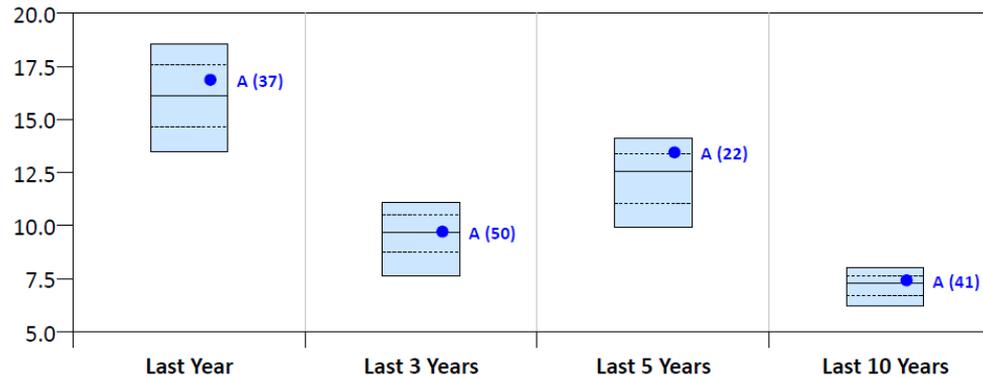


Source: Callan, Barclays

# Public Fund Peer Comparison

## As of 6/30/14

Returns  
for Periods Ended June 30, 2014  
Group: CAI Public Fund Sponsor Database



Period	10th Percentile	25th Percentile	Median	75th Percentile	90th Percentile	Member Count	Total Fund-TFFR
Last Year	13.5	14.7	16.1	17.6	18.6	222	16.9
Last 3 Years	7.7	8.7	9.7	10.5	11.1	213	9.7
Last 5 Years	9.9	11.0	12.5	13.4	14.1	200	13.5
Last 10 Years	6.2	6.7	7.3	7.6	8.0	174	7.4

**Callan Returns: The TFFR Fund generated 1<sup>st</sup> quartile returns for the 5-year period and 2<sup>nd</sup> quartile returns for the 1-, 3-, and 10-year periods ended June 30, 2014 when compared to public fund peers (unadjusted basis).**

Note: TFFR Fund and peer performance are based on Callan's calculation of gross returns.

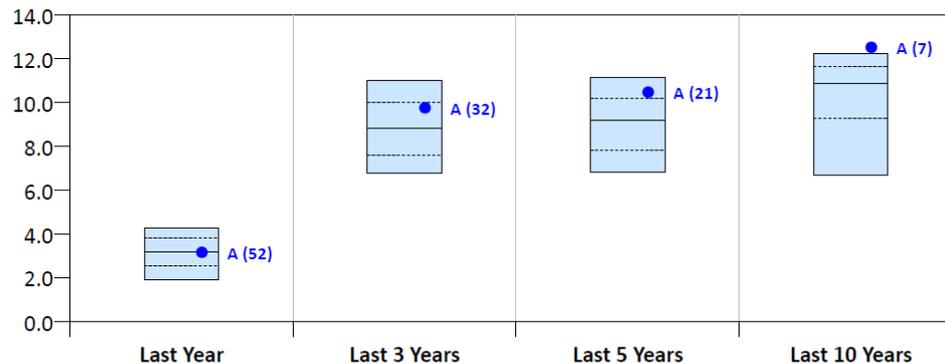
Source: Callan

# Public Fund Peer Comparison

## As of 6/30/14

Standard deviation is used to measure investment (or portfolio) volatility whereas a lower standard deviation is generally preferred over a higher standard deviation.

Standard Deviation  
for Periods Ended June 30, 2014  
Group: CAI Public Fund Sponsor Database



Period	10th Percentile	25th Percentile	Median	75th Percentile	90th Percentile	Member Count	Total Fund-TFFR
Last Year	1.9	2.5	3.2	3.8	4.3	222	3.2
Last 3 Years	6.8	7.6	8.8	10.0	11.0	213	9.8
Last 5 Years	6.8	7.8	9.2	10.2	11.1	200	10.5
Last 10 Years	6.7	9.3	10.9	11.6	12.3	174	12.5

**Standard Deviation of Callan Returns: The TFFR Fund generated 3<sup>rd</sup> quartile standard deviation for the 1-year period, 2<sup>nd</sup> quartile standard deviation for the 3-year period, and 1<sup>st</sup> quartile standard deviation for the 5- and 10-year period ended June 30, 2014 when compared to public fund peers (unadjusted basis).**

Note: TFFR Fund and peer performance are based on Callan's calculation of gross returns.

Source: Callan

# TFFR Asset Allocation

## As of 6/30/14

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	Market Value	Allocation		Δ
		Actual	Policy	
<b>TOTAL FUND</b>	<b>2,061,684,912</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>
<b>GLOBAL EQUITIES</b>	<b>1,188,486,633</b>	<b>57.6%</b>	<b>57.0%</b>	<b>0.6%</b>
<b>GLOBAL FIXED INCOME</b>	<b>482,785,176</b>	<b>23.4%</b>	<b>22.0%</b>	<b>1.4%</b>
<b>GLOBAL REAL ASSETS</b>	<b>370,371,494</b>	<b>18.0%</b>	<b>20.0%</b>	<b>-2.0%</b>
Total Cash Equivalents	20,041,610	1.0%	1.0%	0.0%

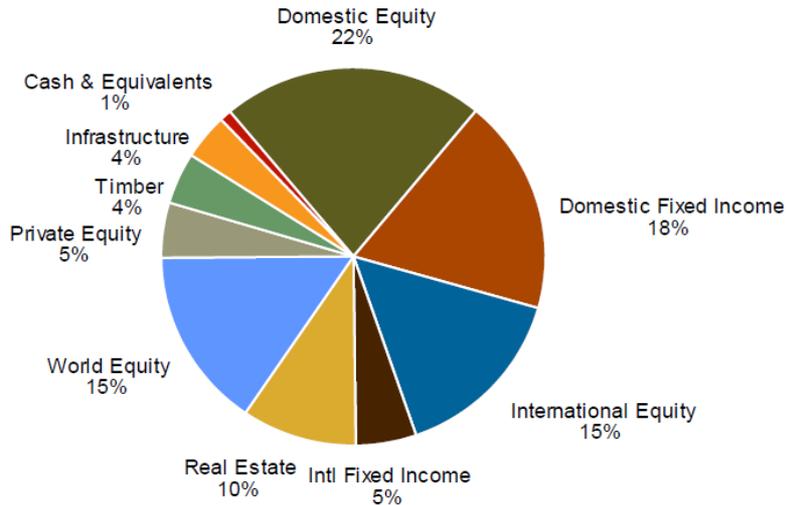
NOTE: Monthly market values are preliminary and subject to change.

- ▶ Based on the broad asset allocation framework adopted in 2011, the TFFR Total Fund was slightly **overweight to Global Equities (0.6%) and Global Fixed Income (1.4%)** and **underweight to Global Real Assets (-2.0%)** as compared to its target asset allocation on June 30, 2014.

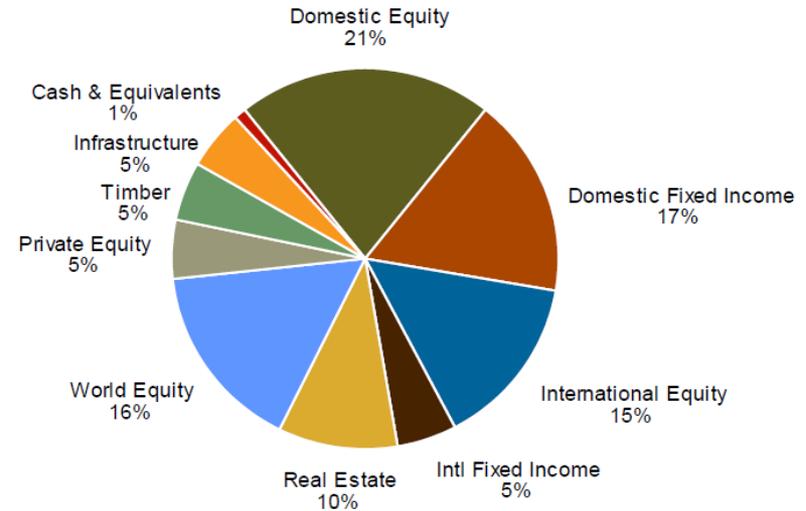
# TFFR Actual vs. Target Asset Allocation

## As of 6/30/14

Actual Asset Allocation



Target Asset Allocation



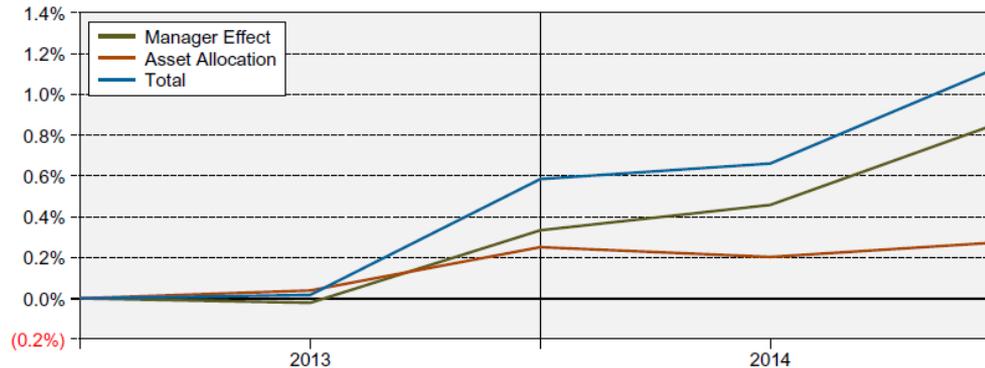
Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	458,458	22.2%	21.4%	0.8%	17,257
Domestic Fixed Income	378,339	18.4%	17.0%	1.4%	27,852
International Equity	315,184	15.3%	14.6%	0.7%	14,178
Intl Fixed Income	104,446	5.1%	5.0%	0.1%	1,362
Real Estate	199,446	9.7%	10.0%	(0.3%)	(6,723)
World Equity	317,489	15.4%	16.0%	(0.6%)	(12,380)
Private Equity	97,358	4.7%	5.0%	(0.3%)	(5,726)
Timber	90,108	4.4%	5.0%	(0.6%)	(12,976)
Infrastructure	80,818	3.9%	5.0%	(1.1%)	(22,267)
Cash & Equivalents	20,041	1.0%	1.0%	0.0%	(576)
<b>Total</b>	<b>2,061,686</b>	<b>100.0%</b>	<b>100.0%</b>		

Unaudited amounts subject to change

# TFFR Total Fund Attribution

## One Year Ended June 30, 2014

### Cumulative Relative Attribution Effects



### One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	23%	21%	25.15%	25.02%	0.03%	0.10%	0.13%
Domestic Fixed Income	17%	17%	7.91%	6.49%	0.27%	(0.04%)	0.23%
Real Estate	10%	10%	16.77%	11.21%	0.53%	0.01%	0.54%
Timber	5%	5%	2.62%	9.92%	(0.37%)	0.01%	(0.36%)
Infrastructure	4%	5%	9.50%	2.04%	0.31%	0.16%	0.47%
International Equity	15%	15%	23.62%	21.80%	0.25%	(0.01%)	0.24%
International Fixed Income	5%	5%	8.58%	9.42%	(0.03%)	0.00%	(0.03%)
Private Equity	5%	5%	4.07%	4.07%	0.00%	(0.01%)	(0.01%)
World Equity	17%	16%	23.24%	24.05%	(0.13%)	0.03%	(0.10%)
Cash & Equivalents	1%	1%	0.04%	0.05%	(0.00%)	0.03%	0.03%
<b>Total</b>			<b>16.87%</b>	<b>= 15.73%</b>	<b>+ 0.86%</b>	<b>+ 0.27%</b>	<b>1.14%</b>

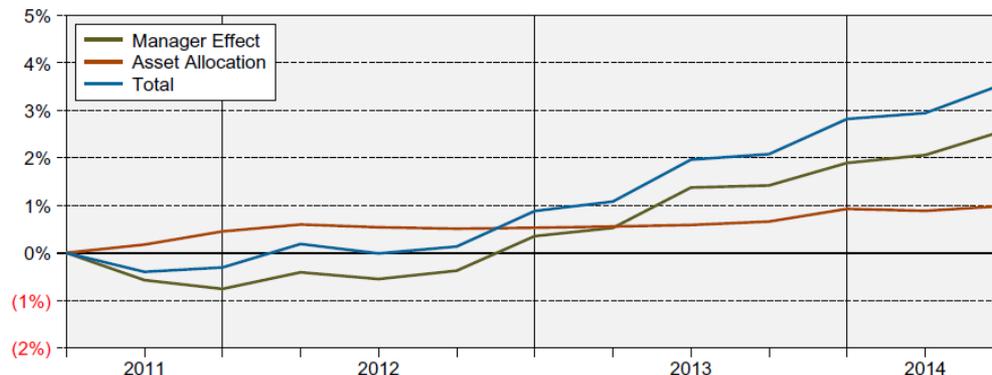
- ▶ **One Year Manager Selection** within Real Estate, Infrastructure, International Equity and Domestic Fixed Income was a positive contributor to relative performance, while Timber and World Equity were detractors.  
*Unaudited amounts subject to change*

Source: Callan, gross returns

# TFFR Total Fund Attribution

## Three Years Ended June 30, 2014

### Cumulative Relative Attribution Effects



### Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	26%	26%	16.74%	16.34%	0.05%	0.17%	0.22%
Domestic Fixed Income	17%	17%	6.52%	5.12%	0.22%	(0.01%)	0.21%
Real Estate	10%	10%	13.55%	11.32%	0.20%	0.08%	0.28%
Timber	5%	5%	-	-	(0.39%)	0.03%	(0.36%)
Infrastructure	3%	5%	-	-	0.24%	0.20%	0.44%
International Equity	17%	17%	7.95%	6.46%	0.25%	0.01%	0.25%
International Fixed Income	5%	5%	4.63%	1.75%	0.16%	(0.02%)	0.14%
Private Equity	5%	5%	5.25%	5.25%	0.00%	(0.10%)	(0.10%)
World Equity	10%	10%	-	-	(0.01%)	(0.07%)	(0.08%)
Cash & Equivalents	1%	1%	0.07%	0.07%	(0.00%)	(0.01%)	(0.01%)
<b>Total</b>			<b>9.72%</b>	<b>8.73%</b>	<b>+ 0.72%</b>	<b>+ 0.28%</b>	<b>0.99%</b>

- ▶ **Three Year Manager Selection** within International Equity, Infrastructure, Fixed Income and Real Estate was a positive contributor to relative performance, while Timber was a detractor. *Unaudited amounts subject to change*

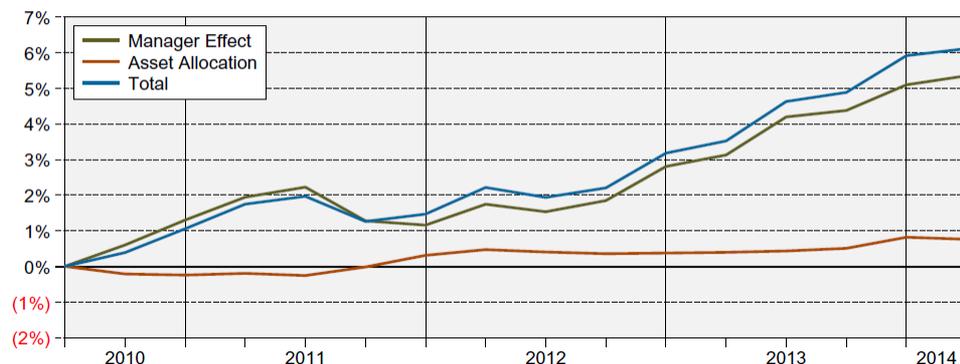
Source: Callan, gross returns

Note: Timber, Infrastructure and World Equity did not have distinct Target Returns in prior years.

# TFFR Total Fund Attribution

## Four Years Ended June 30, 2014

### Cumulative Relative Attribution Effects



### Three and Three-Quarter Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	30%	29%	20.55%	20.26%	0.00%	0.13%	0.14%
Domestic Fixed Income	17%	18%	7.19%	5.66%	0.26%	(0.03%)	0.23%
Real Estate	10%	10%	15.32%	12.69%	0.25%	0.05%	0.30%
Timber	3%	3%	-	-	(0.33%)	0.02%	(0.31%)
Infrastructure	2%	3%	-	-	0.18%	0.16%	0.34%
International Equity	19%	19%	12.67%	10.18%	0.49%	(0.01%)	0.48%
International Fixed Income	5%	5%	6.86%	4.60%	0.13%	(0.02%)	0.11%
Private Equity	5%	5%	8.01%	8.01%	0.00%	(0.08%)	(0.08%)
World Equity	7%	7%	-	-	0.06%	(0.06%)	(0.01%)
Cash & Equivalents	1%	1%	0.10%	0.10%	(0.00%)	(0.02%)	(0.02%)
<b>Total</b>			<b>13.07%</b>	<b>= 11.90%</b>	<b>+ 1.03%</b>	<b>+ 0.15%</b>	<b>1.18%</b>

- ▶ **Four Year Manager Selection** within International Equity, Fixed Income, Real Estate and Infrastructure was a positive contributor to relative performance, while Timber was a detractor. *Unaudited amounts subject to change*

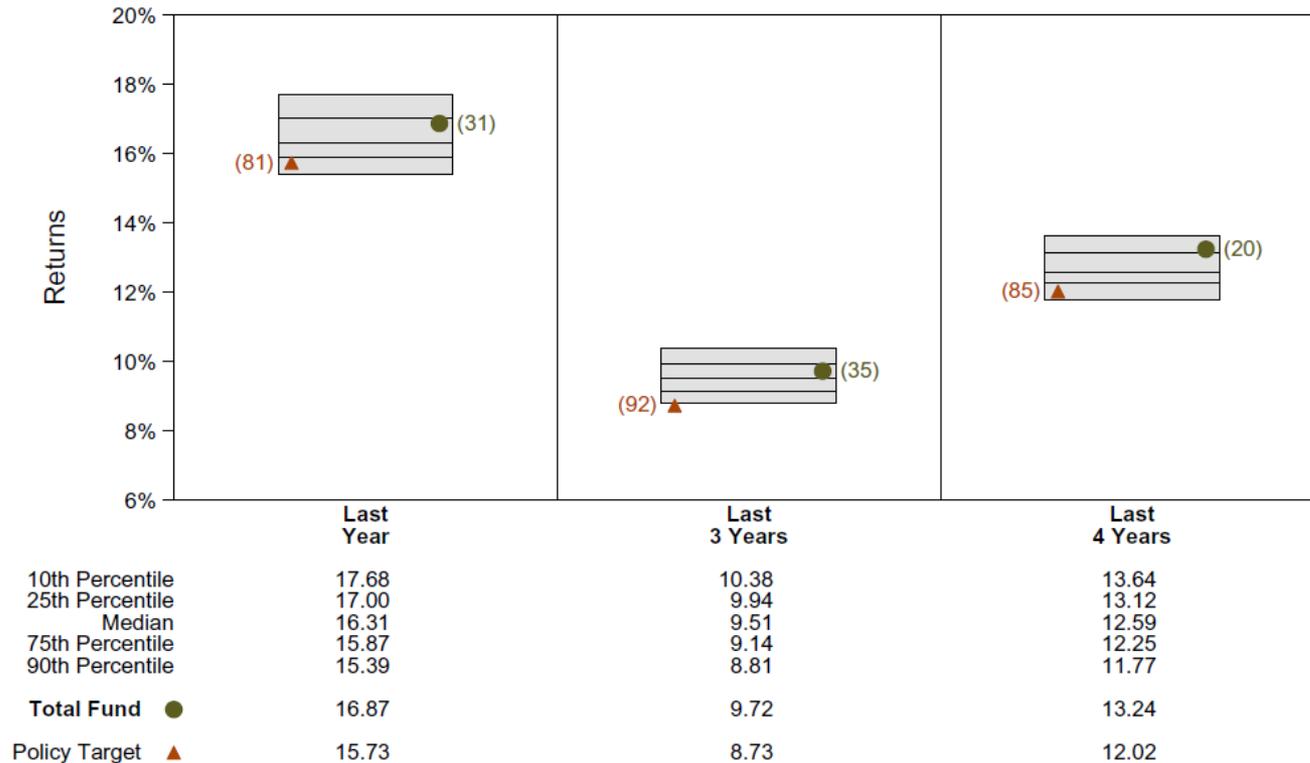
Source: Callan, gross returns

Note: Timber, Infrastructure and World Equity did not have distinct Target Returns in prior years.

# Public Fund Peer Comparison

## As of 6/30/14

### Asset Allocation Adjusted Ranking



**Callan Returns:** When adjusted for asset allocation as compared to public fund peers, the TFFR Fund generated 2<sup>nd</sup> quartile returns for the 1- and 3- year periods and 1<sup>st</sup> quartile returns for the 5-year period ended June 30, 2014.

Note: TFFR Fund and peer performance are based on Callan's calculation of gross returns.

Source: Callan

## Historical Market Returns - Asset Class

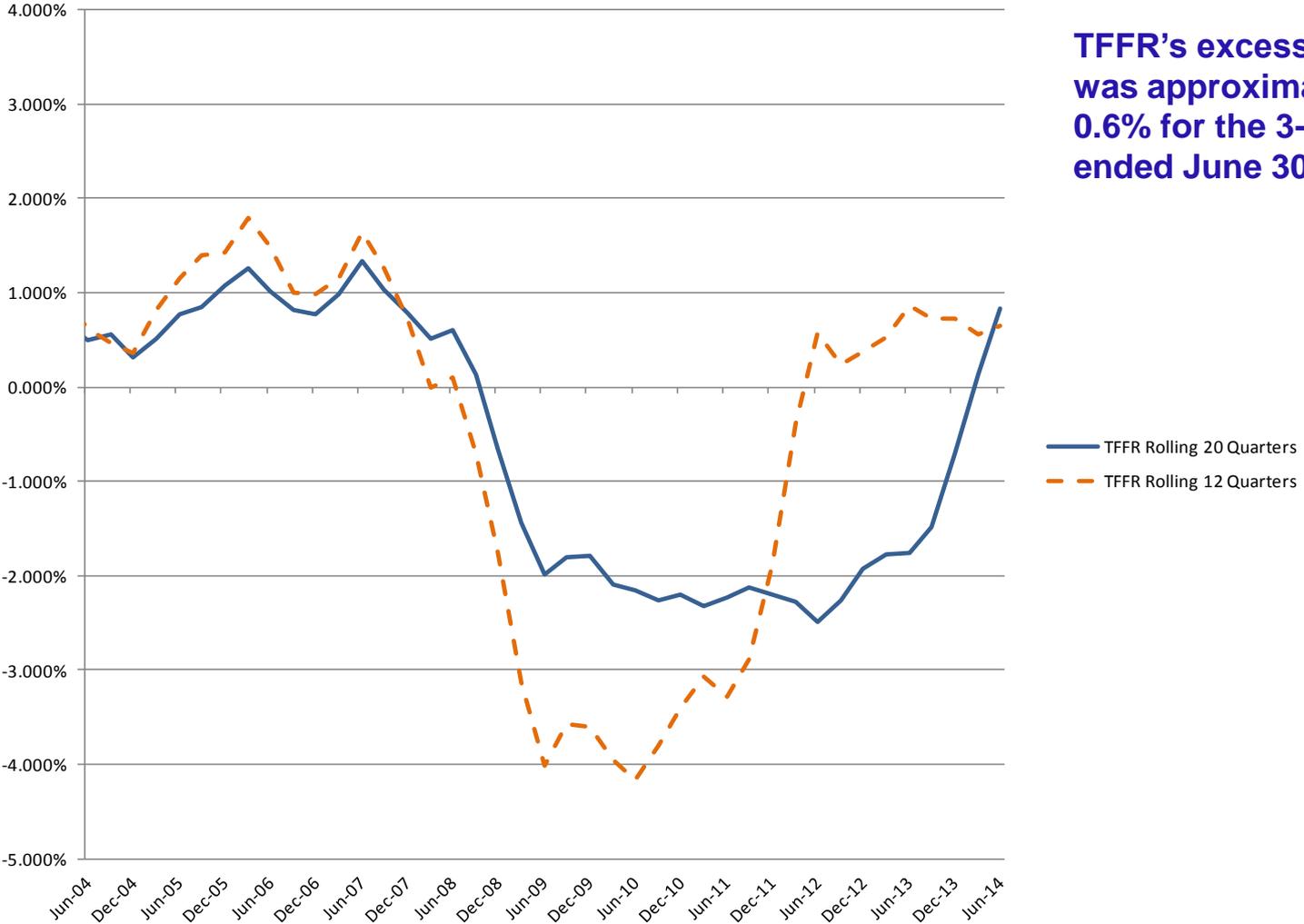
Asset Class	Represented by	Periods Ended June 30, 2014			
		1 Year	3 Year	5 Years	10 Years
Large Cap US Stocks	Russell 1000	25.35%	16.63%	19.25%	8.19%
Small Cap US Stocks	Russell 2000	23.64%	14.57%	20.21%	8.70%
Non-US Stocks (Developed)	MSCI EAFE	23.57%	8.10%	11.77%	6.93%
Non-US Stocks (Emerging)	MSCI Emerging Mkts	14.68%	-0.06%	9.58%	12.30%
US Bonds	BC Aggregate	4.37%	3.66%	4.85%	4.93%
High Yield Bonds	BC High Yield Credit	11.73%	9.48%	13.98%	9.05%
Non-US Sovereign Debt	Citi World Gov't Bond ex US	8.88%	1.03%	3.59%	4.90%
Inflation Protected	BC Global Inflation Linked	10.42%	4.44%	6.03%	5.81%
Real Estate	NCREIF Property	11.21%	11.32%	9.67%	8.63%
Timber	NCREIF Timberland	9.92%	6.73%	3.33%	8.35%
Cash	3 Month T-Bill	0.05%	0.07%	0.11%	1.63%

TFFR Total Fund (Callan Actual Gross)		16.87%	9.72%	13.45%	7.43%
TFFR Total Fund (Net)		16.53%	9.38%	13.07%	6.84%
TFFR Total Fund Policy		15.73%	8.73%	12.23%	7.48%

Source: Callan

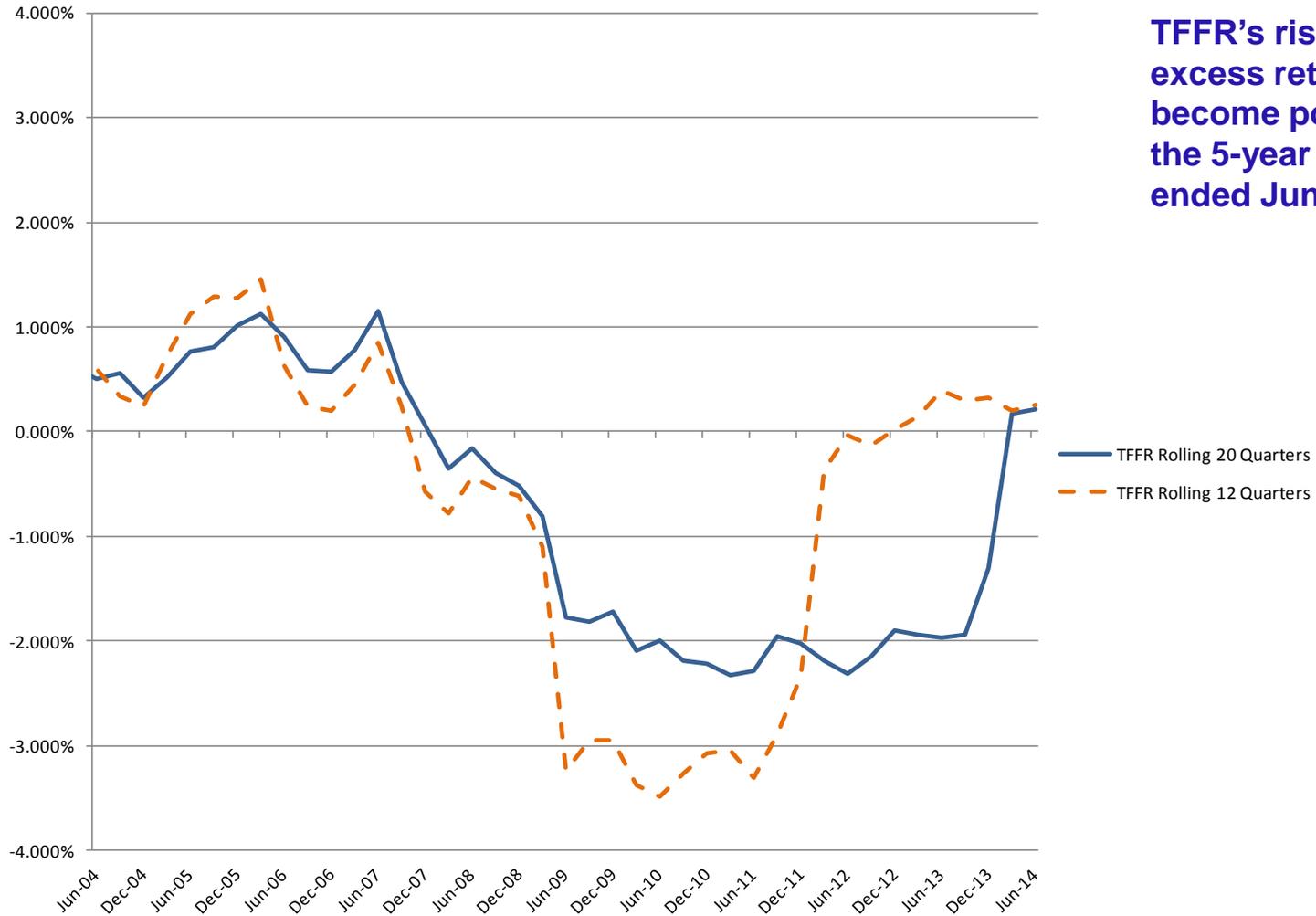
# Excess Return Relative to Policy Benchmark

## 10 Years Ended 6/30/2014



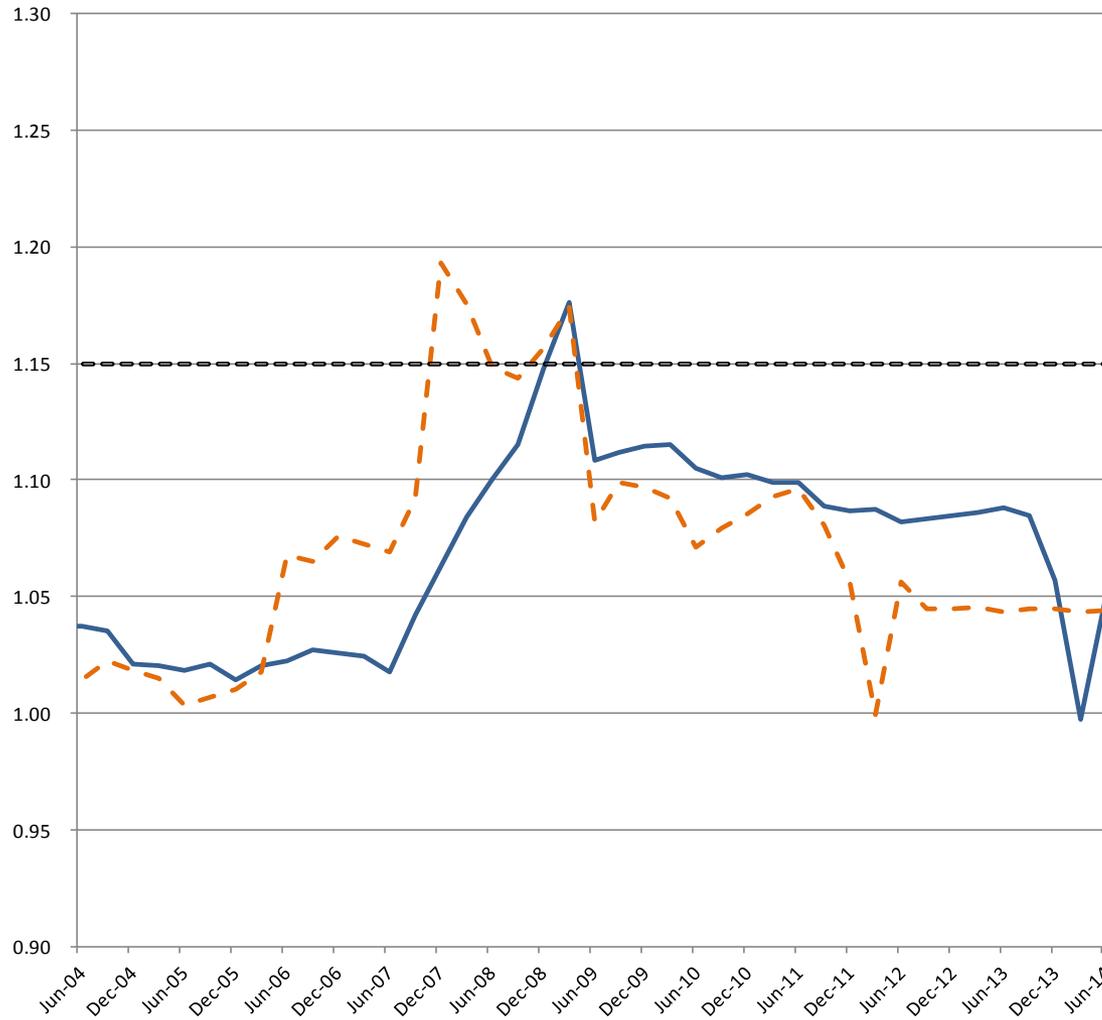
**TFFR's excess return was approximately 0.6% for the 3-years ended June 30, 2014.**

# Risk Adjusted Excess Return 10 Years Ended 3/30/2014



**TFFR's risk adjusted excess return has become positive for the 5-year period ended June 30, 2014.**

# Relative Standard Deviation Relative to Policy Benchmark 10 Years Ended 6/30/2014



**TFFR's standard deviation remains within investment guidelines of 1.15 (or 115% of the policy benchmark over the last 5 years).**

— TFFR Rolling 20 Quarters  
 - - - TFFR Rolling 12 Quarters  
 - - - Reference

**TFFR's standard deviation for the 5-years ended June 30, 2014 was 10.5%, slightly in excess of its policy benchmark.**

## Active management generated \$15 million of excess return in fiscal 2014

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs End. 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014
<b>TEACHERS' FUND FOR RETIREMENT (TFFR)</b>					
\$	2,061,684,912			<b>115% Limit</b>	
<b>Total Fund Return - Net</b>	<b>16.53%</b>	<b>9.38%</b>	<b>13.07%</b>	10.5%	<b>0.20%</b>
Policy Benchmark Return	15.74%	8.73%	12.23%	10.0%	
Attribution Analysis					
Asset Allocation	0.23%	0.18%		<b>105%</b>	
Manager Selection	0.56%	0.47%		Actual Risk / Policy Risk	
<b>Total Relative Return</b>	<b>0.79%</b>	<b>0.65%</b>	<b>0.83%</b>		

- Active management was largely responsible for creating \$15 million of incremental income for TFFR in the fiscal year ended June 30, 2014.
- This is based on \$1.93 billion of average TFFR assets under management and 0.79% of actual net investment return in excess of the policy benchmark.
- This translates into a return of \$2 for every \$1 paid for investment management fees during the past fiscal year.

**Risk:** Investment performance has been achieved while adhering to prescribed risk management guidelines which limit portfolio risk (as measured by standard deviation) to 115% of policy, as the actual level of **105%** is within the approved limit.

**1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.**

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five active and retired members of the fund appointed by the Governor of North Dakota and two elected officials - the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit public pension plan that provides retirement, disability, and death benefits in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of service X 2.0% X Final Average Salary. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions scheduled to increase as follows:

	7/1/11	7/1/12	7/1/14
Employee	7.75%	9.75%	11.75%
Employer	8.75%	10.75%	12.75%

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches 100% funded level on an actuarial value basis.

The TFFR Board has an actuarial valuation performed annually and an Experience Study and Asset Liability Study performed every five years. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment office (RIO).

**2. FUND GOALS**

The Plan benefits are financed through both statutory employer and employee contributions and the investment earnings on assets held in the Fund. The TFFR Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.

- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State/School District's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places a greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important state/local projects.

**3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB).**

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

#### **4. RISK TOLERANCE**

The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the State/School Districts ability to continue to provide pension benefits to plan participants. Thus, the Board actively seeks to lower the cost of funding the Plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the Board believes that such an approach, prudently implemented, best serves the long-run interests of the State/School District and, therefore, of plan participants.

#### **5. INVESTMENT OBJECTIVES**

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB

- 1) The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- 2) The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.

- 3) The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

**6. POLICY ASSET MIX**

Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target (%)	Rebalancing Range (%)
Global Equity	57	46-65
Domestic Equity	31	26-36
Large	24	20-28
Small	7	4-10
International Equity	21	16-26
Developed	17	12-22
Emerging	4	2-6
Private Equity	5	4-8
Global Fixed Income	22	16-28
Domestic Fixed	17	13-21
Investment Grade	12	10-18
Non-Investment Grade	5	3-7
International Fixed	5	3-7
Developed	5	3-7
Emerging		0-3
Global Real Assets	20	12-28
Global Real Estate	10	5-15
Other	10	0-15
Infrastructure		0-10
Timber		0-7
Commodities		0-5
Inflation Linked-Bonds		0-10
Other Inflation Sensitive Strategies		0-5
Global Alternatives		0-10
Cash	1	0-2

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Board does not intend to engage in tactical asset allocation. Allocations to Global Alternatives will result in pro-rata reduction in the policy targets.

## **7. RESTRICTIONS**

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- 1) The cost does not exceed the fair market value at the time of investment.

- 2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar task.
- 3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- 4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## **8. INTERNAL CONTROLS**

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## **9. EVALUATION AND REVIEW**

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

- 1) A list of the advisory services managing investments for the board.
- 2) A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.

**Policy Type:** TFFR Ends

**Policy Title:** Investment Policy Statement

- 3) Earnings, percentage earned, and change in market value of each fund's investments.
- 4) Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.
- 5) All material legal or legislative proceedings affecting the SIB.
- 6) Compliance with this investment policy statement.

**TFFR Board Adopted:** May 25, 1995.

**Amended:** November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006; September 20, 2007; October 27, 2011, September 26, 2013.

**Approved by SIB:** November 18, 2011



# ND STATE INVESTMENT BOARD MEETING

Friday, September 26, 2014, 8:30 a.m.  
Peace Garden Room, State Capitol  
600 E Blvd., Bismarck, ND

## I. APPROVAL OF AGENDA

## II. APPROVAL OF MINUTES (August 22, 2014)

## III. INVESTMENTS

- A. Investment Management Fees and Expenses - Mr. Hunter (enclosed) (30 min)
- B. Callan Custody and Fee Preview - Mr. Hunter (enclosed) (15 min)
- C. Bank of North Dakota Initiatives - Mr. Hardmeyer (enclosed) (30 min)

## IV. GOVERNANCE

- A. Annual Governance Manual Review - Mr. Hunter (enclosed) (60 min) **(First Reading)**
- B. RIO Budget Review - Ms. Flanagan (to follow) (10 min) **(Board Acceptance)**
- C. RIO Staffing Update - Mr. Hunter (enclosed) (5 min)
- D. Executive Review Committee Update - Mr. Lech (5 min)
- E. Certificate of Achievement for Excellence in Financial Reporting - Mr. Hunter (enclosed) (5 min)

## V. OTHER

Next Meeting: SIB meeting - October 24, 2014, 8:30 a.m. - Peace Garden Room  
SIB Audit Committee meeting - October 24, 2014, 1:00 p.m. - Peace Garden Room

## VI. ADJOURNMENT

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
AUGUST 22, 2014, BOARD MEETING**

**MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, Vice Chair  
Clarence Corneil, Parliamentarian, TFFR Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner (TLCF)  
Rob Lech, TFFR Board  
Yvonne Smith, PERS Board  
Cindy Ternes, WSI designee  
Tom Trenbeath, PERS Board

**BOARD MEMBERS ABSENT:** Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Connie Flanagan, Fiscal & Invt Op Mgr  
Bonnie Heit, Assist to the SIB  
David Hunter, ED/CIO  
Cody Schmidt, Compliance Officer  
Darren Schulz, Deputy CIO  
Susan Walcker, Invt Acct

**OTHERS PRESENT:** Sam Brindley, BlackRock  
Jim Cavanaugh, JP Morgan  
Paul Erlendson, Callan Associates  
Matt Kraeger, BlackRock  
Jan Murtha, Attorney General's Office  
Linh Pham, BlackRock  
Bryan Reinhardt, PERS  
Jim Sakelaris, JP Morgan  
Katy Speer, Public Citizen  
Bryan Summers, Callan Associates

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 22, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

**AGENDA:**

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 22, 2014, MEETING AS DISTRIBUTED.**

**AYES: COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, MS. SMITH, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT**

**MINUTES:**

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE JULY 25, 2014, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, MR. LECH, COMMISSIONER HAMM, MR. CORNEIL, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

**MORTGAGE BACKED SECURITIES:**

The Board received presentations on Agency Mortgage Backed Securities strategies from BlackRock and JP Morgan representatives.

The Board recessed at 10:05 a.m. and reconvened at 10:17 a.m.

Staff reviewed their due diligence process in conjunction with Callan Associates and recommended the SIB award the Agency Mortgage Backed Securities mandate to JP Morgan. Staff is basing their recommendation on the strategy's complementary fit with the existing PIMCO MBS mandate in the Pension Trust. JP Morgan will be replacing Western Asset Management's MBS mandate.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND AWARD THE AGENCY MORTGAGE BACKED SECURITIES MANDATE IN THE PENSION TRUST TO JP MORGAN.

AYES: MR. CORNEIL, MR. TRENBEATH, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MS. SMITH, MR. SANDAL, MS. TERNES, MR. LECH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

The SIB is of the understanding that staff will attempt to negotiate a lower fee with JP Morgan other than the proposed 21-22 basis points on the mandate.

**ASSET/PERFORMANCE OVERVIEW:**

Mr. Hunter provided an update on the SIB client assets. Net investment returns for the year ended June 30, 2014, were realized for the following funds; TFFR (16.5%), PERS (16.4%), WSI (11.7%) Insurance Trust (8.3%), and Legacy Fund (6.6%).

He also provided an update on staffing. Interviews were conducted for the Audit Supervisor vacancy on August 21 and the Investment Analyst interviews will be conducted the early part of September.

Updates were also provided on the following:

The emerging market equity transition to Axiom was completed on August 1, 2014.

Callan Associates custody and fee review results of Northern Trust will be available at the September 26, 2014, meeting.

Staff will continue to review the Private Capital and Global Fixed Income mandates in the 3<sup>rd</sup> and 4<sup>th</sup> quarters for efficiencies.

**ASSET CLASS DEFINITIONS:**

Mr. Hunter provided a summary of asset class definitions as a reference to the Board. The definitions were prepared by staff in conjunction with the PERS Investment Sub-Committee.

**SIB AUDIT COMMITTEE MEMBERSHIP:**

At the July 25, 2014, meeting, the SIB approved the following membership of the Audit Committee for the period of July 1, 2014 - June 30, 2015; Ms. Becky Dorwart (External Rep.), Mr. Gessner (TFFR Rep.), Mr. Sandal (PERS Rep.), and Ms. Ternes (Elected and Appointed Officials Rep.).

Staff recommended Ms. Karol Riedman, to serve as one of two external representatives on the Committee. Ms. Riedman is currently the Chief Audit Executive for the Office of Internal Audit of the ND Dept. of Health.

**IT WAS MOVED BY MR. LECH AND SECONDED BY MS. TERNES TO ACCEPT STAFF RECOMMENDATION AND APPOINT MS. KAROL RIEDMAN TO SERVE ON THE SIB AUDIT COMMITTEE AS AN EXTERNAL REPRESENTATIVE FOR THE PERIOD OF JULY 1, 2014 - JUNE 30, 2015.**

**AYES: MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, MS. SMITH, MR. LECH, MR. SANDAL, MR. TRENBEATH, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY**

**NAYS: COMMISSIONER GAEBE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT**

**EXECUTIVE REVIEW COMMITTEE:**

Executive Review Report - At the SIB's July 25, 2014, meeting, the Board accepted an evaluation plan and timeline for completion of the annual performance review of the Executive Director/CIO. The Board also made revisions to a proposed evaluation survey. Mr. Lech, Chair of the Executive Review Committee, along with Mr. Sandal and Ms. Ternes presented the revised evaluation survey for the SIB's consideration and acceptance.

**IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE REVISED EVALUATION SURVEY PROPOSED BY THE EXECUTIVE REVIEW COMMITTEE TO UTILIZE IN CONDUCTING THE ANNUAL PERFORMANCE REVIEW OF THE ED/CIO.**

**AYES: MS. SMITH, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT**

**MONITORING REPORTS:**

Pension/Insurance Trust Performance Measurement - Callan representatives reviewed the asset allocation, money manager performance, and consolidated

performance results for the Pension Trust and Insurance Trust for the period ending June 30, 2014. Callan also reviewed the economic and market environment for the same time period.

Watch List - Staff is conducting additional due diligence and monitoring of the following firms; Western Asset Management (MBS mandate), PIMCO (all strategies), and Timberland Investment Resources.

Compliance Reports - Ms. Flanagan reviewed the following compliance reports for FY2014 from the SIB investment managers; Certification of Compliance with Investment Guidelines, Exceptions to Investment Guidelines, and Audit and Internal Control (SSAE 16) Reports.

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.**

**AYES: MR. TRENBEATH, MR. CORNEIL, COMMISSIONER GAEBE, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MS. SMITH, MS. TERNES, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT**

The Board recessed at 11:55 a.m. and reconvened at 12:07 p.m.

**EDUCATION:**

Representatives of Callan Associates presented a Callan College session on Performance Monitoring and Fund Sponsor Trends.

**OTHER:**

Next SIB Meeting - September 26, 2014, 8:30 a.m. - State Capitol, Peace Garden Room

Next SIB Audit Committee meeting - October 24, 2014, 1:00 p.m. - State Capitol, Peace Garden Room

**ADJOURNMENT:**

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 1:03 p.m.

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Lt. Governor Wrigley, Chair  
State Investment Board

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Bonnie Heit  
Assistant to the Board

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
JULY 25, 2014, BOARD MEETING**

**MEMBERS PRESENT:** Mike Sandal, Vice Chair  
Clarence Corneil, Parliamentarian, TFFR Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Rob Lech, TFFR Board  
Kelly Schmidt, State Treasurer  
Yvonne Smith, PERS Board  
Cindy Ternes, WSI designee

**BOARD MEMBERS ABSENT:** Drew Wrigley, Lt. Governor, Chair  
Adam Hamm, Insurance Commissioner  
Tom Trenbeath, PERS Board

**STAFF PRESENT:** Bonnie Heit, Assist to the SIB  
David Hunter, ED/CIO  
Fay Kopp, Dep. ED/CRO  
Cody Schmidt, Compliance Officer  
Darren Schulz, Deputy CIO

**OTHERS PRESENT:** Weldee Baetsch, former PERS/SIB trustee  
Jeff Engleson, Land Dept.  
Paul Erlendson, Callan Associates  
Jan Murtha, Attorney General's Office  
Bryan Reinhardt, PERS  
James Van Heuit, Callan Associates

**CALL TO ORDER:**

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, July 25, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

The SIB welcomed Ms. Yvonne Smith. Ms. Smith will be representing the Public Employees Retirement System (PERS) on the SIB.

**AGENDA:**

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE REVISED AGENDA FOR THE JULY 25, 2014, MEETING AS DISTRIBUTED.

AYES: MS. TERNES, MR. CORNEIL, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. LECH, MS. SMITH, MR. GESSNER, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

**MINUTES:**

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE JUNE 27, 2014, MINUTES AS DISTRIBUTED.

AYES: MS. TERNES, MR. CORNEIL, TREASURER SCHMIDT, MR. GESSNER, MS. SMITH, COMMISSIONER GAEBE, MR. LECH, AND MR. SANDAL

NAYS: NONE

**MOTION CARRIED****ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH****ELECTION OF OFFICERS:**

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER TO CONTINUE WITH THE PRESENT SLATE OF OFFICERS FOR THE PERIOD OF JULY 1, 2014 - JUNE 30, 2015 WITH LT. GOVERNOR WRIGLEY SERVING AS CHAIR AND MR. SANDAL SERVING AS VICE CHAIR.

A ROLL CALL VOTE WAS HELD FOR THE POSITION OF CHAIR:

AYES: MR. LECH, MR. CORNEIL, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MS. TERNES, AND MR. SANDAL

NAYS: TREASURER SCHMIDT

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

A ROLL CALL VOTE WAS HELD FOR THE POSITION OF VICE CHAIR:

AYES: MS. TERNES, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MR. SANDAL, MR. LECH, MR. CORNEIL, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

Mr. Sandal reappointed Mr. Corneil as parliamentarian for Fiscal Year 2014-15.

**SIB AUDIT COMMITTEE MEMBERSHIP:**

The members of the Audit Committee, Ms. Becky Dorwart, Mr. Gessner, Mr. Sandal, and Ms. Ternes, are willing to serve for the period of July 1, 2014 - June 30, 2015 with the exception of Mr. Lonny Mertz. Staff intends to make a recommendation in the next two months.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. LECH AND CARRIED ON A ROLL CALL VOTE TO CONTINUE WITH THE CURRENT MEMBERSHIP OF THE SIB AUDIT COMMITTEE FOR THE PERIOD OF JULY 1, 2014 - JUNE 30, 2015.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, TREASURER SCHMIDT, MR. LECH, MR. CORNEIL, MS. TERNES, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

**INVESTMENTS:**

Private Capital/Timber Review - Mr. Hunter provided an update on Private Capital. As of March 31, 2014, every investment in the asset class with a net asset value of \$30 million or more generated excess returns ranging from 0.7% to 15.1% during the past 1 and 3 year periods excluding Timber. During the last 1 and 3 year periods, Timber investments have lagged the NCREIF Timber benchmark (whether measured on a Time Weighted Return or Internal Rate of Return basis), however Timber has generated positive excess returns on a Net Internal Rate of Return basis since inception.

Mr. Hunter reviewed the timber holdings currently managed by Timberland Investment Resources. As of March 31, 2014, the assets were valued at \$254 million.

Mr. Hunter also reviewed secondary markets where pricing is nearing all time highs.

Staff recommended the following action:

- Place Timber Investment Resources on Watch and conduct further due diligence of the SIB timber investments including the requested renewal of the Springbank commitment on June 30, 2015.
- Complete due diligence of smaller Private Capital investments within Global Real Assets.
- Engage Callan to conduct a bi-annual fee study of all asset classes.

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND PLACE TIR ON "WATCH" AND CONDUCT FURTHER DUE DILIGENCE OF THE TIMBER INVESTMENTS.**

**AYES: MR. CORNEIL, MR. GESSNER, MR. SANDAL, MS. SMITH, MS. TERNES, COMMISSIONER GAEBE, MR. LECH, AND TREASURER SCHMIDT**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH**

For clarification purposes, the additional due diligence of smaller Private Capital investments and the fee study of all asset classes by Callan did not require action by the SIB.

Fee Update - Staff provided an update on investment management fees. Investment management fees were restructured to generate annual savings of approximately \$2 million during the past six months when compared to the prior fiscal year end.

Callan is analyzing a securities lending proposal from Northern Trust as part of the custody review. One of the options is estimated to generate approximately \$950,000 of annual incremental income based on historical Pension and Insurance Trust asset levels.

Performance fees are expected to decline in Fiscal Year 2014 due to unusually strong returns in the structured debt strategies not being duplicated in the current year. One specific manager currently estimates a \$6 million decline in performance fees between years.

Staff will be making a recommendation to the SIB to complete a "targeted" fee study by an independent third party to compliment Callan's bi-annual fee review.

**GOVERNANCE:**

Executive Review Report - At the SIB's June 27, 2014, meeting, the Chair appointed an Executive Review Committee consisting of Mr. Lech, as Chair, Mr. Sandal, and Ms. Ternes. The Committee met on July 17 and 22, 2014, to review and recommend an evaluation system for the Executive Director/CIO. The Committee was also to bring forward recommendations on compensation terms. Mr. Lech reviewed a draft evaluation plan and timelines for completion of the evaluation and recommendations and timelines for compensation.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE PROPOSED EVALUATION PLAN AND TIMELINE FOR THE EXECUTIVE REVIEW. THE COMPENSATION REVIEW WILL BE ADDRESSED ONCE THE EVALUATION REVIEW IS IN PLACE.

AYES: TREASURER SCHMIDT, MR. GESSNER, MS. TERNES, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. SANDAL, AND MR. CORNEIL

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

Code of Conduct Recertification - The SIB was provided a copy of their Governance policy, Board Members' Code of Conduct. As outlined in the policy, board members are annually required to affirm their understanding of the policy by signing and dating the acknowledgement.

**MONITORING REPORTS:**

The following monitoring reports were presented to the SIB for the quarter ending June 30, 2014; Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program Ends, Retirement Program Ends, and the "Watch List".

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.

AYES: MS. SMITH, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MS. TERNES, COMMISSIONER GAEBE, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: LT. GOVERNOR WRIGLEY, COMMISSIONER HAMM, MR. TRENBEATH

The Board recessed at 9:52 a.m. and reconvened at 10:04 a.m.

**EDUCATION:**

Representatives of Callan Associates presented educational sessions on Capital Market Theory, Asset Allocation, and Fiduciary Roles.

**OTHER:**

Next SIB Meeting - August 22, 2014, 8:30 a.m. - State Capitol, Peace Garden Room  
Next SIB Audit Committee meeting - September 26, 2014, 1:00 p.m. - State Capitol, Peace Garden Room

**ADJOURNMENT:**

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:59 a.m.

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Mr. Sandal, Vice Chair  
State Investment Board

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Bonnie Heit  
Assistant to the Board

**TFFR EXPENDITURE REPORT**  
**FISCAL YEAR ENDED JUNE 30, 2014**

<u>CONTINUING APPROPRIATIONS</u>	<u>TFFR Expenses</u>	
INVESTMENT EXPENDITURES	\$ <u>13,677,820</u>	7.7%
MEMBER CLAIMS		
ANNUITY PAYMENTS	158,350,355	
REFUND PAYMENTS	<u>3,908,921</u>	
TOTAL MEMBER CLAIMS	<u>162,259,276</u>	91.4%
OTHER CONTINUING APPROPRIATIONS	<u>152,542</u>	0.1%
TOTAL CONTINUING APPROPRIATIONS	176,089,638	99.2%
 <u>BUDGETED EXPENDITURES</u>		
SALARIES & BENEFITS		
SALARIES	645,394	
OVERTIME/TEMPORARY	0	
FRINGE BENEFITS	<u>251,966</u>	
TOTAL SALARY & BENEFITS	897,360	0.5%
ACCRUED LEAVE PAYMENTS	24,839	0.0%
OPERATING EXPENDITURES		
TRAVEL	16,039	
IT SOFTWARE & SUPPLIES	1,259	
PROFESSIONAL SUPPLIES	601	
MISCELLANEOUS SUPPLIES	321	
OFFICE SUPPLIES	1,299	
MAILING SERVICES AND POSTAGE	36,350	
PRINTING	11,598	
SMALL OFFICE EQUIPMENT	431	
INSURANCE	417	
RENT OF BUILDING SPACE	53,314	
REPAIRS - OFFICE EQUIPMENT	94	
IT - DATA PROCESSING	68,176	
IT - COMMUNICATIONS	7,663	
IT CONTRACTUAL SERVICES	99,634	
PROFESSIONAL DEVELOPMENT	9,045	
OPERATING FEES & SERVICES	11,676	
PROFESSIONAL FEES & SERVICES	<u>10,665</u>	
TOTAL OPERATING EXPENDITURES	328,582	0.2%
CONTINGENCY	<u>0</u>	
SIB EXPENSES ALLOCATED TO TFFR	<u>182,721</u>	0.1%
TOTAL BUDGETED EXPENDITURES	<u>1,433,502</u>	0.8%
TOTAL EXPENDITURES	<u>\$ <u>177,523,140</u></u>	

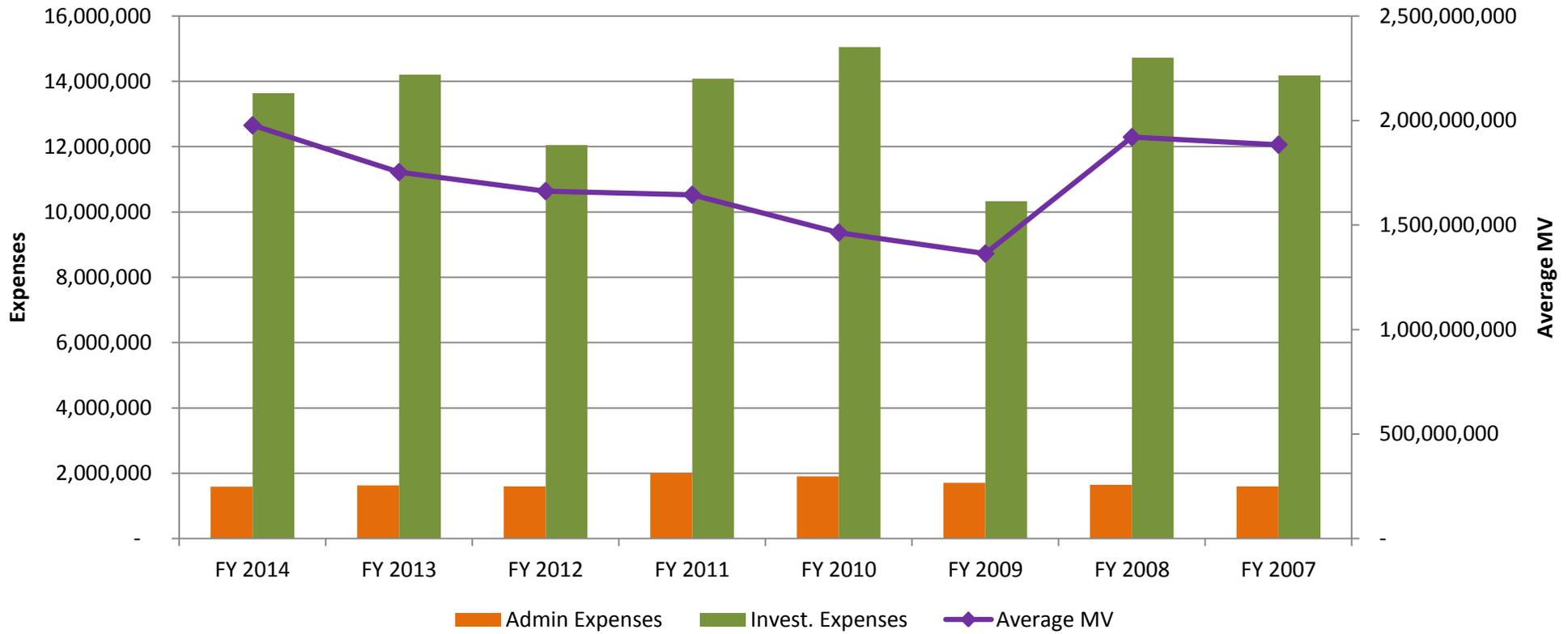
**Schedule of Consultant Expenses**  
**Pension and Investment Trust Funds**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Actuary fees:				
Segal Company	\$ 71,264	\$ 94,848	\$ -	\$ -
Auditing fees:				
CliftonLarsonAllen LLC	45,942	44,596	28,423	26,290
Disability consulting fees:				
Dr. G.M. Lunn	375	775	-	-
Legal fees:				
K&L Gates LLP	11,474	9,073	15,585	10,692
Jenner & Block	-	2,337	-	3,644
ND Attorney General	9,908	13,751	11,374	11,323
Total legal fees:	<u>21,381</u>	<u>25,161</u>	<u>26,959</u>	<u>25,659</u>
Total consultant expenses	<u>\$ 138,963</u>	<u>\$ 165,381</u>	<u>\$ 55,382</u>	<u>\$ 51,949</u>

## ND Teachers' Fund for Retirement Schedule of Investment Expenses

	FY 2014				FY 2013			
	Average Market Value	Fees in \$	Fees as % of Average MV	Contribution to Total Fees	Average Market Value	Fees in \$	Fees as % of Average MV	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	326,235,450	2,605,453	0.80%	0.13%	197,566,458	1,403,825	0.71%	0.08%
Domestic large cap equity managers	340,895,908	1,018,026	0.30%	0.05%	336,258,113	661,279	0.20%	0.04%
Domestic small cap equity managers	105,239,002	551,815	0.52%	0.03%	102,229,770	656,041	0.64%	0.04%
Developed international equity managers	242,199,904	822,849	0.34%	0.04%	228,746,539	911,366	0.40%	0.05%
Emerging markets equity managers	57,526,583	258,679	0.45%	0.01%	54,745,552	378,684	0.69%	0.02%
Investment grade domestic fixed income managers	242,206,182	1,491,703	0.62%	0.08%	214,323,703	2,787,286	1.30%	0.16%
Below investment grade fixed income managers	100,794,001	747,407	0.74%	0.04%	82,893,062	1,604,541	1.94%	0.09%
Developed international fixed income managers	96,622,044	340,634	0.35%	0.02%	88,751,191	317,489	0.36%	0.02%
Real estate managers	188,509,149	1,899,944	1.01%	0.10%	173,804,190	1,863,035	1.07%	0.11%
Timber managers	89,210,349	341,757	0.38%	0.02%	90,497,383	349,639	0.39%	0.02%
Infrastructure managers	76,493,621	681,088	0.89%	0.03%	65,804,876	939,370	1.43%	0.05%
Private equity managers	95,436,733	2,433,316	2.55%	0.12%	97,761,570	1,850,618	1.89%	0.11%
Cash & equivalents managers	15,765,017	23,964	0.15%	0.00%	19,877,190	26,873	0.14%	0.00%
<b>Total investment management fees</b>	<b>1,977,133,942</b>	<b>13,216,635</b>	<b>0.67%</b>		<b>1,753,259,597</b>	<b>13,750,046</b>	<b>0.78%</b>	
Custodian fees		293,776	0.01%	0.01%		257,367	0.01%	0.01%
Investment consultant fees		172,148	0.01%	0.01%		198,775	0.01%	0.01%
<b>Total investment expenses</b>		<b>13,682,559</b>	<b>0.69%</b>			<b>14,206,188</b>	<b>0.81%</b>	
<b>Performance Fees (included in totals above)</b>								
LSV		1,473,958				474,389		
Northern Trust		355,914				122,899		
Clifton		198,829				231,323		
PIMCO DiSCO		537,735				1,864,559		
Goldman Sachs Fund V		97,658				188,405		
INVESCO III		398,728				327,319		
PIMCO Distressed		-				881,491		
Grosvenor (formerly Credit Suisse)		(148,156)				64,695		
<b>Total Performance Fees Paid (excluding private equity)</b>		<b>2,914,666</b>	<b>0.15%</b>			<b>4,155,080</b>	<b>0.24%</b>	
<b>Actual Investment Performance (Net of Fees)</b>			<b>16.53%</b>				<b>13.63%</b>	
<b>Policy Benchmark</b>			<b>15.74%</b>				<b>11.95%</b>	
<b>Outperformance</b>			<b>0.79%</b>				<b>1.68%</b>	

# TFFR Investment and Administrative Expenses



# Memorandum

**TO:** TFFR Board of Trustees  
**FROM:** Fay Kopp  
**DATE:** September 18, 2014  
**SUBJ:** SIB Customer Satisfaction Survey

At the August meeting, the Board decided each member should complete the SIB customer satisfaction survey individually (commenting on excellent or poor ratings), and forward to Pres. Gessner to compile results.

Pres. Gessner will provide a summary of the responses at the September meeting for board discussion and finalization.

**COPY**

**NORTH DAKOTA STATE INVESTMENT BOARD  
CUSTOMER SATISFACTION SURVEY**

Is the State Investment Board (SIB), through the Retirement and Investment Office (RIO) staff, providing you with quality service? Please help us measure our performance and identify areas for improvement by rating our service to you during fiscal year 2014. Circle the appropriate response and return the questionnaire in the courtesy envelope to the RIO office.

<u>RATING FACTORS</u>	<u>EXCELLENT</u>	<u>ABOVE AVERAGE</u>	<u>AVERAGE</u>	<u>POOR</u>
Handling of telephone calls promptly and professionally	X	X	X	X
Clarity and effectiveness of letters, reports, and presentations	X	X	X	X
Detail provided on reports	X	X	X	X
Delivery of high-quality service	X	X	X	X
Accessibility	X	X	X	X
Responsiveness	X	X	X	X
Efficiency	X	X	X	X
Knowledge of investments	X	X	X	X

**HOW CAN THE SIB AND/OR RIO STAFF IMPROVE THEIR SERVICE TO YOU?**

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ND Teachers' Fund for Retirement

SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_

**Thank you for helping us to serve you better.**

TFFR - 9/25/14

**NORTH DAKOTA STATE INVESTMENT BOARD  
CUSTOMER SATISFACTION SURVEY**

Is the State Investment Board (SIB), through the Retirement and Investment Office (RIO) staff, providing you with quality service? Please help us measure our performance and identify areas for improvement by rating our service to you during fiscal year 2014. Circle the appropriate response and return the questionnaire in the courtesy envelope to the RIO office.

<b>RATING FACTORS</b>	<b>EXCELLENT</b>	<b>ABOVE AVERAGE</b>	<b>AVERAGE</b>	<b>POOR</b>
Handling of telephone calls promptly and professionally	X	X	X	X

5 Excellent 1 Above average 1 N/A

**(Comments)**

In the instances that I have called and/or visited the NDRIO offices, I have immediately been properly referred, had questions answered appropriately. Additionally, as a superintendent, I occasionally hear from teachers related to these services. They have consistently been positive in regards to the communication from NDRIO.

Clarity and effectiveness of reports

6 Excellent 1 Above average

Fay and the other TFFR staff has done an excellent job in reaching out to various stakeholders to inform on timely issues of value to TFFR and its members. Additionally, the GASB trainings led by NDRIO staff has been, and will continue to be, a crucial aspect of proper implementation. I feel that NDRIO is well prepared to provide this training and recognizes the value.

Detail provided in reports

6 Excellent 1 Above average

All of the NDRIO staff provides consistent and high-value reporting on each agenda item every month. I have not yet asked a question that I could not find the answer to in the materials provided to us each month.

Delivery of high-quality service

6 Excellent 1 Above average

My basis for this rating is the high quality of information sharing that goes into recommendations to the SIB/TFFR boards. In every instance, I have felt that I not only have the appropriate information necessary to make a decision, but a rationalized recommendation. The NDRIO staff recognizes that all decisions are done in the interest of the fund and action is consistent that fiduciary responsibility.

Accessibility

6 Excellent 1 Above average

As stated in other factors, I feel that NDRIO has reached out to numerous groups on timely issues. In the past year, this has included the presentations to celebrate the TFFR anniversary and GASB Implementation. I appreciate that presentations are available online for access as well. I find the website to be a resource that provides a high level of accessibility and transparency.

Responsiveness

6 Excellent 1 Above average

I have only had a few instances in which this factor would apply, but in all of them the responses have been as quick as I could have expected. In organizing my new trustee training, Fay was very efficient in organizing those plans. Additionally, I have had a few requests to David related to investments and the evaluation procedure. In every instance, David responded immediately and completely to me on all questions and requests.

Efficiency

5 Excellent 1 Above average 1 N/A

I'm struggling with understanding how to rate this factor. I believe that the NDRIO staff is efficient as they have been managing at a high-level without a full contingent of staff, but I'm choosing to provide an N/A as I don't believe I can accurately rate the factor.

Knowledge of Investments

6 Excellent 1 Above average

As stated in the factor for delivery of high-quality service, every recommendation provided by the NDRIO staff comes with all necessary background to make a sound board decision. The fund is producing at a high-level while maintaining risk aversion. I'm not sure what more we could ask of the NDRIO staff in this area.

How can the SIB and/or RIO staff improve their service to you?

• Although I think it was more out of circumstance than anything, it would have been nice to have the new trustee workshop occur prior to my first meeting. I somewhat felt ill-prepared walking into my first few meetings. It is important to understand, however, that with the responsibilities of Fay and Darren during that phase was tremendous as we had yet to hire a new ED/CIO. It would be nice if the SIB/TFFR would assign a mentor for new members to help acclimate them to the process.

I think the ND RIO should continue to explore the electronic board meeting discussions and create a timeline for full implementation. There are many technology applications that could be utilized as well, such as Google Hangouts, that would be more efficient and effective than the present system when members attend via teleconference. I would like to see a formal recommendation and timeline for implementation there as well.

• Office personnel are very professional and serve customers well.

• Keep up the good work. It is good to see that the internal auditor slot will be filled soon. Our school districts / TFFR members depend on the accuracy of accounts.

• Darren and David are finding their way as they continue to collaborate their individual skills and talents to best serve the needs.

• All presentations are given in a professional manner and explained to a level of understanding. Questions are answered immediately or in a timely manner. Investment reports are very detailed.

• The answer to all questions are answered with efficiency, clarity, and extreme level of professionalism. The patience and kindness of staff is very much appreciated.

ND Teacher's Fund for Retirement

Signature Michael M. Gessner Date 9/25/14

# Memorandum

**TO:** TFFR Board of Trustees  
**FROM:** Fay Kopp  
**DATE:** September 18, 2014  
**SUBJ:** TFFR Policy Changes

At the July meeting, the TFFR Board conducted its annual review of TFFR program mission, goals, and policies. As part of that review, a number of policies were identified for additional board discussion and possible changes. Draft policy changes are included for your review.

## **BOARD POLICY**

## **RECOMMENDED ACTION**

C-2	Board Meetings	Amend
New	Disclosure of Confidential Information	Approve

Enclosure

**Policy Type:** TFFR Program

**Policy Title:** Board Meetings

It shall be the policy of the TFFR Board of Trustees to conduct a minimum of six board meetings each year. Meetings will generally be scheduled for the day preceding the SIB meetings beginning in July of each year; unless a different day is determined.

Special board meetings may be called in accordance with NDCC 15-39.1-06.

Eligible TFFR Board members will be paid for a full day for each board or committee meeting attended that lasts for two or more hours at the rate provided in NDCC 15-39.1-08, hereafter referred to as the payroll amount. Meetings lasting less than two hours will be compensated at one half the payroll amount. Mileage and travel expense reimbursement will be paid as provided in NDCC 44-08-04 and 54-06-09 for attending board or committee meetings.

**TFFR Board Adopted:** May 27, 1993.

**Amended:** July 16, 1998, September 22, 2011.

## **DRAFT – NEW POLICY**

**Policy Type: TFFR Program**

**Policy Title: Disclosure of Confidential Information for treatment, operational, or payment purposes**

The TFFR Board of Trustees has determined that confidential information for treatment, operational, or payment purposes under NDCC 15-39.1-30(12) includes:

1. Information related to enrollment, participation, benefits, or contributions may be shared with participating employers or TFFR contractors for purposes of maintaining a member's participation and benefits in the TFFR program. Such sharing of information is limited to that information which is necessary to assure that a member's participation and benefits are properly handled. All such information remains confidential whether in the possession of TFFR, its participating employers, or its contractors.
2. Information necessary for the administration and operation of the program may be shared with TFFR attorneys and consultants. To the extent such information is shared, it remains confidential.
3. Information relating to the death benefits and beneficiary designations of a deceased member or beneficiary may be shared with an ex-spouse if listed as a beneficiary on a designation of beneficiary form, subsequent to the death of the applicable member or beneficiary, but in advance of a final determination regarding the applicable beneficiary, only to the extent necessary to accurately identify the appropriate beneficiary.
4. Information relating to the death benefits and beneficiary designations of a member or beneficiary may be shared with any other person if the beneficiary is unknown or unable to be located, only to the extent necessary to accurately identify the appropriate beneficiary or to close an account subsequent to the death of a member or beneficiary.

All other requests for confidential information under this policy must first be submitted to the Deputy Executive Director/Chief Retirement Officer and then reviewed by the TFFR Board of Trustees.

TFFR Board adopted:

**15-39.1-30. Confidentiality of records.**

All records relating to the retirement benefits of a member or a beneficiary under this chapter are confidential and are not public records. The information and records may be disclosed, under rules adopted by the board, only to:

1. A person to whom the teacher has given written consent to have the information disclosed.
2. A person legally representing the teacher, upon proper proof of representation, and unless the teacher specifically withholds consent.
3. A person authorized by a court order.
4. A member's participating employer, limited to information concerning the member's years of service credit, years of age, employer and employee contribution amounts, and salary. The board may share other types of information as needed by the employer to validate the employer's compliance with existing state or federal law. Any information provided to the member's participating employer under this subsection must remain confidential except as provided in subsection 6.
5. The administrative staff of the public employees retirement system for purposes relating to membership and benefits determination.
6. State or federal agencies for the purpose of validating member eligibility or employer compliance with existing state or federal law.
7. Member interest groups approved by the board, limited to information concerning the member's death.
8. A government child support enforcement agency for purposes of establishing paternity or establishing, modifying, or enforcing a child support obligation of the member.
9. The member's spouse or former spouse, that individual's legal representative, and the judge presiding over the member's dissolution proceeding for purposes of aiding the parties in drafting a qualified domestic relations order under section 15-39.1-12.2. The information disclosed under this subsection must be limited to information necessary for drafting the order.
10. Beneficiaries designated by a participating member or a former participating member to receive benefits after the member's death, but only after the member's death. Information relating to beneficiaries may be disclosed to other beneficiaries of the same member.
11. The general public, but only after the board has been unable to locate the member for a period in excess of two years, and limited to the member's name and the fact that the board has been unable to locate the member.
12. Any person if the board determines disclosure is necessary for treatment, operational, or payment purposes, including the completion of necessary documents.
13. A person if the information relates to an employer service purchase, but the information must be limited to the member's name and employer, the retirement program in which the member participates, the amount of service credit purchased by the employer, and the total amount expended by the employer for that service credit purchase. Information identified under this subsection may only be obtained from the member's employer.

# Memorandum

**TO: TFFR Board of Trustees**

**FROM: Fay Kopp**

**DATE: September 18, 2014**

**SUBJ: Electronic Board Documents**

At the July meeting, the TFFR Board discussed receiving board materials electronically, and then viewing the materials from personal laptops or tablets at board meetings instead of receiving the materials in hard copy. RIO has established some general guidelines and instructions for this practice which will be reviewed at the meeting.

In the future, board members who wish to electronically access board materials from the RIO Reference Library and no longer receive paper copies should let us know. We will continue sending trustees both paper and electronic versions of the materials unless you request differently.

## **NDRIO Reference Library**

The NDRIO Reference Library is a web page NDRIO has created for SIB Clients, and SIB and TFFR Boards to provide a centralized location to easily access financial and investment reports, board meeting materials, and program manuals. Board members may access or copy this information electronically to a business or personal device (desktop, laptop, tablet, smartphone).

### **Public Information and Information Security**

- As public entities discussing public business, SIB and TFFR meetings and records are subject to open meetings and open records laws generally under NDCC 54-46 and 44-04. All records are public unless deemed not an open record, exempt or confidential under state law. TFFR member and beneficiary records are confidential under NDCC 15-39.1-30.
- Board members should be aware that board information is public information. Any personal device used to retrieve or send board, agency, or other information otherwise related to public business could potentially become part of an open records request, so members should maintain records appropriately.

### **Reference Library Instructions**

- For those who wish to use a personal device at board meetings, wireless access is available. Users should view wireless connections from their device and look for StageNet Guest and click connect (no password required). Once connected, go to the Reference Library website and click on the appropriate link that contains the material for the meeting user is attending or use the link that was provided via email.
- All documents posted to the Reference Library are in PDF format (read-only) so user will need to have compatible software or app to view documents. If user wishes to make annotations to the PDF document, user will need to download the PDF document to the device and then save any annotations or editing.

### **Reference Library Information**

- Financial Statements and Performance Reports  
Financial statements and investment performance reports for RIO and clients of the SIB are posted to the NDRIO Reference Library on a monthly basis. The reports are generally available 30-45 days after each month end. An email notification is sent to SIB clients, and SIB and TFFR Board members when the reports are posted.
- Board Meeting Materials  
Board meeting materials will be posted to NDRIO's Reference Library approximately one week preceding a scheduled board meeting. An email notification will be sent to SIB, SIB Audit Committee, and TFFR Board members when board materials are posted for respective meetings. Board members may choose whether to receive board materials in electronic format, hard copy, or both.

Confidential or executive session information (i.e. member records, attorney work product regarding litigation, etc.) will not be posted to the NDRIO Reference Library, but will be emailed or provided in hard copy format to Board or Committee members only. Board members are responsible for maintaining such information as confidential, and may wish to remove from email or device after the information has been utilized.

- Program Manuals  
Program manuals and other information will be updated as needed. An email notification will be sent to SIB and TFFR Board members when manuals are updated.

## **Washington state high court rules pension benefit reductions are constitutional**

**By ROB KOZLOWSKI | August 19, 2014 3:54 pm | Updated 4:03 pm**

The rulings last week came as a result of two class-action lawsuits filed by the Washington Education Association against the Washington State Department of Retirement Systems, Olympia, that questioned the Legislature's right to repeal or modify benefit enhancements.

The first ruling affects 2007 legislation that repealed gain-sharing benefits originally enacted in 1998, which gave members and retirees a share of what the state called “extraordinary investment returns.” That legislation also created “early retirement factors,” or ERFs, which allowed some members — those hired before May 1, 2013 — of three of the state's pension funds with 30 years of service to retire as early as age 62 without a benefit reduction.

“Many pension system members have been 'on the bubble' for months about whether to retire under the ERFs, not knowing if the provisions would be in place,” said Marcie Frost, director of the Department of Retirement Systems, in a statement. “Today's ruling brings some certainty and ability to plan effectively for retirement.”

The plans affected were Plans 2 and 3 of the Public Employees' Retirement System, School Employees' Retirement System and Teachers' Retirement System. Each retirement system has three tiers of pension plans.

The state Supreme Court ruling also upheld 2011 legislation that removed uniform cost-of-living adjustments in the Public Employees' Retirement System Plan 1 and Teachers' Retirement System Plan 1. Both of those plans have been closed since 1977.

King County Superior Court Judge Richard Eadie ruled in September 2010 that the repeal of gain sharing was invalid. Thurston County Superior Court Judge Chris Wickham ruled the discontinuation of the uniform COLA was unconstitutional in November 2012.

The state Supreme Court heard oral arguments in both cases in October 2013.

Kim Mead, president of the Washington Education Association, said in a statement, “It's not right for the Legislature to unilaterally cut retirement benefits it promised — and to take away what educators already earned.”

David Brine, spokesman, and Shawn Merchant, assistant director, policy and strategic initiatives, both at the Department of Retirement Systems, were not available by press time. Rich Wood, Washington Education Association spokesman, did not return a phone call by press time.

## **Statement 68' won't affect city's cash position**

**By Sydney L. Murray [smurray@civitasmedia.com](mailto:smurray@civitasmedia.com)**

August 20, 2014

EATON — In June 2012, the Governmental Accounting Standards Board approved two statements that will change the financial reporting of pension liabilities.

According to a GASB press release, Statement 67 “addresses financial reporting for state and local government pension plans. Statement 68 establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.”

Eaton Community Schools Treasurer Priscilla Dodson said she is unsure at the moment how these new statements will affect the school system.

“We don’t know how that’s going to impact us at this point, it’s so new,” Dodson said. “If it does, I really don’t think it’s going to do much to us or for us.”

City of Eaton Finance Director Stephanie Risner said Statement 67 won’t have too much of an impact on the city. She said Statement 67 will affect more of the actual retirement systems, the Ohio Public Employees Retirement System, Ohio police and fire departments, school district school employees’ retirement systems and state teachers’ retirement systems.

Risner said Statement 68 only impacts what information will go on the city’s financial statements and doesn’t affect the city’s cash position.

“So this GASB doesn’t affect what’s coming in and out of our bank accounts,” Risner said. “We still are contributing the same thing.”

Risner said the city is required to contribute a certain percentage of employees’ pay into the retirement systems. The city contributes 14 percent of employees’ pay for PERS, 19.5 percent for police officers and 24 percent for fire employees.

Risner said the city will now have to recognize their portion of the liability for where those retirement systems may not be fully funded.

“What they’ll do, those retirement systems will tell us this is the portion of that liability, and you have to put it on your financial statements,” Risner said. “It doesn’t mean we have to contribute more money, it’s just gonna show that we have a liability.”

Risner said these changes will reduce the city’s equity in its financial statements, but not its actual equity in the bank.

“On the actual balance sheet you would see a liability for the unfunded portion and then the expenditure that is associated with that liability would run through the individual departments in proportion with their payroll,” Risner said.

Risner said Eaton won’t really have to begin worrying about this change until the beginning of 2016 when they are doing their financial statements. The statements don’t actually apply until Eaton has a fiscal year beginning after June 15, 2014.

“It’s only a expenditure on paper, it’s not an actual expenditure that we’ll have to pay for,” Risner said. “So there will be additional disclosures in our financial statements that we issue every year.”

Risner said she has participated in webinars through Ohio PERS and also attended auditors’ trainings in conjunction with these new statements. Risner said the city will work with Donald J. Schonhardt and Associates to help them with their financial statements, as well as with Ohio PERS and Ohio police and fire departments to get those numbers that will have to be reflected in the financial statements.

## **New pension guidelines may impact local government**

**By Jane Beathard For The Madison Press**

August 21, 2014

Thanks to an A-1 municipal bond rating by Moody’s Investors’ Service, the city is paying less than 2 percent interest on the 20-year loan. This year’s payment will run about \$210,000, according to auditor Katie Hensel.

But interest on loans for future improvements like new streets for an enterprise zone or a renovated community center could run much higher if the city’s bond rating declines under new reporting rules mandated by the Governmental Accounting Standards Board (GASB).

Those federal rules require all government entities — counties, municipalities, townships and public school districts — to show net unfunded pension liabilities on their year-end financial statements, starting in 2014.

Unfunded pension liability is the long-term cost of each retired employee. In the past, only retirement plans showed those liabilities.

“London will assume a portion of the entire state (pension) systems’ liabilities,” Hensel said.

It’s a “game changer” that will have an immediate, negative impact on the city’s overall financial picture and possibly its rating with Moody’s and its ability to borrow money.

“Rating agencies are aware of the situation and will take it into consideration,” Hensel said.

But what about the future?

Currently, the stock market is thriving and the Ohio Public Employees Retirement System (OPERS) and Ohio Police & Fire Pension Fund are receiving good returns on their investments.

But the situation could change quickly in an economic downturn like that of 2008.

“It’s very volatile,” Hensel said. “Nobody knows what will happen in the future.”

Like Hensel, Madison County Auditor Jennifer Hunter must soon show on county books the estimated liability of benefit payments to retired county employees.

She believes the new reporting standard stems from the City of Detroit’s 2013 bankruptcy. Many critics blamed the city’s underfunded retirement system, coupled with a stock market downturn and declining property tax revenues for the crisis.

Detroit’s retirement system was underfunded by as much as \$3.5 billion at the time of the bankruptcy. Last month, the retirees agreed to take more than a 4 percent cut in benefits, published reports said.

Hunter said Ohio’s public retirement plans are broader-based than those in Detroit with thousands of employees and their public employers paying into the systems.

Madison County would only assume payments to retirees if OPERS and four other Ohio public pension plans defaulted — an unlikely scenario, Hunter added.

Like Hensel, she’s waiting to hear exact liability amounts from the five systems.

Hunter is less concerned about credit ratings since the county rarely borrows money.

In a June press release, Ohio Auditor Dave Yost noted the new standard is an accounting liability, rather than a legal liability.

“In Ohio, there are no legal means to enforce the unfunded liability of the pension system against the public employer,” Yost said.

He encouraged counties and cities to report their pension liabilities as a separate line item on position papers and promised to avoid using the number in calculating the true financial health of a school district, town or other branch of local government.

Yost said he met with representatives of Moody’s and Fitch Ratings regarding the new guidelines.

“Both have indicated that the implementation...will not affect their ratings,” the press release said.

## **Strong reforms, strong pension plans**

*Pioneer Press*

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In response to a column by Kim Crockett last Sunday ("Whatever the number now, Minnesotans face big unfunded liability"), we would like to clarify information about the current financial status of the state's major pension systems.

Preliminary estimates reported this month show that on a market value basis, the Public Employees Retirement Association (PERA) General Plan is 81 percent funded, with total assets exceeding \$17 billion; Teachers Retirement Association (TRA) is 83 percent funded, with assets of \$20.3 billion; and the Minnesota State Retirement System (MSRS) is 91 percent funded, with assets of \$11.5 billion. Total assets in trust to support the current and future benefit payments of Minnesota's public employees exceed \$59 billion.

The bull market of the past year has certainly helped, and the State Board of Investment has one of the most successful public investment programs in the nation. SBI has averaged 10.3 percent annual returns for the past 30 years, consistently outperforming its peers.

When the markets go through corrections, as we know they will from time to time, the Legislature and the retirement systems act quickly to correct problems and maintain positive reviews from bond rating agencies. Minnesota became one of the first states to pass bipartisan sustainability legislation in 2010 following the market downturn. Those reforms, combined with additional steps in 2013, reduced benefit liabilities by \$6.44 billion, which in turn kept more money in the funds to invest and help rebuild the assets.

Pension reform featured shared sacrifice among current employees, retirees and employers. And the employer or taxpayer share is lower in Minnesota than elsewhere. Employer contributions are 2 percent of state and local government spending here, compared to 3.7 percent in other states, according to the Census Bureau.

The boards of the three statewide retirement systems have been diligent to make sure our pension plans remain financially strong. The reforms have been supported by retirees, employees and employers. We will continue to work with the Legislature and the Governor to strengthen Minnesota's pension plans.

Dave Bergstrom, Mary Most Vanek and Laurie Hacking

The writers are executive directors of, respectively, the Minnesota State Retirement Systems, Public Employees Retirement Association and Teachers Retirement Association

## **Public Employees In Hoosier State Rush To Retire Before Interest Rate Change**

By Jeff Neumeyer

August 25, 2014

Thousands of public employees in Indiana are taking early retirement before the end of this month, to cash in on a higher interest rate with life-long implications. It's something that's impacting workplaces around the state.

The Indiana General Assembly was worried about an increasing number of baby boomers retiring, possibly bankrupting the system, so it took action to lower the interest rate those public employees could get if they chose to annuitize some of their retirement benefits.

Those pulling the trigger on retirement before August 31st get to keep the higher rate, which can mean on average about \$1,000 more per year in interest income.

A big side-effect is offices losing more experienced people in a condensed window of time, institutional knowledge that's hard to replace. Fort Wayne Community Schools is in hiring mode to replace retiring teachers, who also have endured frozen wages and new demands in the teaching profession.

“They’re mentors to our younger teachers, we need them here. Many of them probably would have continued to teach, if all of this had not hit...perfect storm hit at once, that's going to take such a chunk from them," said Ft. Wayne Education Association President Julie Hyndman.

The interest rate for these benefits is currently above 7 percent, but it will eventually fall to 4.5 percent, still a very good rate compared to the return on other popular investment options.

The pension funds for public employees in states like Illinois, Michigan and California are a mess. Indiana's situation is as stable as anywhere in the country. Fort Wayne financial planner Todd Larson says the prospects for it staying that way improve with the lower interest rate.

" The alternative is, either you get your rates lower today and your return is sustainable for the rest of your life, or they lie to you, guarantee you a rate of return that they can't deliver on, and at some point cut your benefits," said Larson.

### **Crowd shows for teacher retirement meeting at Model High**

**Posted: Wednesday, August 27, 2014 9:00 am**

Fred Gould, Georgia Association of Educators field director, explains proposed legislation that could change the teacher retirement system in Georgia to a crowd of about 60 educators at Model High School. (Kristina Wilder / RN-T.com)

Some 60 educators from Rome and Floyd County showed up Tuesday to hear about the effects possible legislation changes could have on the teacher retirement system of Georgia.

“I think all teachers need to be aware this is happening and to monitor it closely,” said Angie Yancey, a teacher at Model Elementary.

Fred Gould, a **Georgia Association of Educators** representative, spoke to the group in Model High School’s auditorium. He explained **Senate Resolution 782**, which was introduced at this year’s Georgia Assembly session.

The resolution never moved, but Gould said he thinks its proposed changes to Georgia’s Teacher Retirement System will come up again when the new session starts in January.

One proposal would be to maintain the defined benefits plan for teachers who are currently working but offer only a defined contribution plan for those to be hired in the future.

Defined benefits are a promise that teachers will get a defined amount of money in their retirement, for the whole time they are retired. Defined contributions are not a promised amount.

“It would be like an annuity,” explained Gould. “It would be something that would be great to supplement retirement, but it cannot replace retirement.”

Gould said he feels this would be the same as creating two different groups of teachers and would cause conflict.

Another possible change would be to allow 5 percent of the TRS reserve to be used to make venture capital investments — a move Gould and the GAE sees as too risky.

Many teachers attending were uncomfortable speaking on the record, however some said they are disturbed by the proposals.

“I am obviously opposed to this,” said Wesley White, a Floyd County teacher who just retired this year. “I think they are trying to take something solvent and something they promised would be there for us and are now trying to go back on that promise. I think every teacher, retired or not, needs to get involved in this.”

Another retired teacher said she feels it would make Georgia less competitive as a draw for new teachers.

“A great many teachers stayed in Georgia rather than go to higher-paying states because the retirement system here is so strong,” said Cindy Latimer, a retired Floyd County educator. “The retirement system is one of the drawing points to bring teachers to our state.”

Latimer said she also feels the proposed changes would be detrimental to the system. “I feel it would set up an adversarial relationship, and that is not our job as educators,” she said. “Our job is to pull together.”

Yancey said she hopes more teachers will begin investigating the proposed legislation.

“I do not feel any of these proposed changes are financially sound,” she said. “It really bothers me and I do not think it is fair.”

Mike Adams, a teacher at Model, said it’s frustrating to think lawmakers might take away promised compensation.

“I love teaching, I do it for the kids,” he said. “But the thought of losing benefits we’ve paid for is a let-down. It is not their money to play with.”

## Nevada lawmakers need to finally tackle public employee pension costs

By Thomas Mitchell

When the Nevada Legislature meets in the spring it is going to have to sharpen a lot of pencils to figure out how to balance the coming biennial budget.

The Carson City newspaper recently calculated that even if the \$1 billion in temporary tax hikes — scheduled to be sunset on June 30 — are extended once again, the revenue will fall \$120 million short.

But that's not even the half of it, according to a recent report by a think tank called Truth in Accounting. You see, Nevada like most states manages to balance its current spending and current revenue by ignoring billions of dollars in obligations.

Truth in Accounting says the biggest culprit is public employee pensions. "Pension benefits are a part of employees' compensation. Employees earn the benefits by providing services to current taxpayers. The elected officials gain political favor by promising these benefits," the report says. "But they do not put money aside to pay them. They argue, 'Hey if I don't write a check for current costs. I don't have to include it in the budget calculations.' This is the reason many states have huge unfunded pension liabilities."

Nevada has the 33<sup>rd</sup> worst budget shortfall among the states, failing to cover \$2.7 billion of its \$2.9 billion in pension liability. That amounts to financial burden of \$3,100 per taxpayer.

"Nevada statutes require the legislature to pass a balanced budget. One of the reasons Nevada is in this precarious financial position is state officials use antiquated budgeting and accounting rules to report Nevada's financial condition. Since employee retirement benefits are not immediately payable in cash, the related compensation costs have been ignored when calculating balanced budgets," Truth in Accounting explains.

One way for lawmakers to begin to whittle down is huge unfunded obligation is to change its pension system from a defined-benefit plan, in which retirees get a percentage of their final salaries, to a defined-contribution plan, in which the state and the employees contribute money into a 401(k)-style fund.

In the 2013 Legislature, Republican Reno Assemblyman Randy Kirner introduced a bill to begin the transition to such a pension system. Assembly Bill 342 died without a whimper in the Assembly Ways and Means Committee, axed by the Democratic committee chairwoman.

Kirner's bill would have created a hybrid retirement program for new employees hired after July 1, 2014. It would have been a half defined-benefit and half defined-contribution plan. It included a cap on annual benefits and a prohibition against workers buying years of service credit. This little scam allows some public employees to work for 25 years, purchase five years of service credits, and retire at the age of 45 with 75 percent of their top pay adjusted for inflation for life.

According to a study for the American Enterprise Institute by resident scholar Andrew Biggs, Nevada's public pensions are the richest in the nation — \$64,000 a year or more than \$1.3 million in lifetime benefits. That doesn't include public-safety workers, such as firefighters and police, who can retire earlier and generally have higher salaries.

In fact Biggs has calculated a debt even higher than Truth in Accounting. He says that by using economist-preferred fair-market evaluations the annual contributions to cover costs and amortization of pensions would be \$5.8 billion. The state's annual general fund budget is only \$3.3 billion.

Such a plan as Kirner put forward would only slow the financial bleeding, not stop it, but it would be better than nothing.

The state's lawmakers need to get serious about balancing the state's finances instead of cowing to public employee unions. — TM

## **New legislation would switch all new Michigan teachers to 401(k)-style plans**

**BY JAKE NEHER**

**New legislation** in the state Senate would close Michigan's teacher retirement system to new teachers. Instead, all new teachers would get a "defined contribution" 401(k)-style plan.

Under a partial overhaul of teacher retirement approved by state lawmakers in 2012, new teachers can choose between that or a "hybrid" plan, which combines elements of a defined contribution plan and a traditional pension. The new legislation would end that choice, giving new teachers only the 401(k)-style defined contribution plan.

A state Senate panel will hear testimony on the legislation this week.

Republican state Sen. Mark Jansen, R-Gaines Twp., introduced Senate Bill 727. He says lawmakers should do everything they can to ease the burden of Michigan's teacher retirement system on school budgets.

"They're looking for a way to reduce their expenses," said Jansen. "And this would be my intent: put more into education of the kids in the classroom and less on the legacy cost."

"This would be the ultimate reform, I think, in my mind, anyway. And it would bring us the stability, I think, in the education system that we really, truly need."

Jansen says the legislation could save schools and the state billions of dollars in the long run.

Some school groups say they are not convinced the savings would be anywhere near that, or that there would be any significant savings at all. They say closing the existing retirement system to new teachers would come with big costs.

State Sen. Howard Walker, R-Traverse City, who chairs the Senate subcommittee which sets the chamber's K-12 funding priorities, admits that switching all new teachers to a defined contribution plan "has costs," and says it is too early to say whether he will hold a vote on the bills. But he says more needs to be done to curb the costs of teacher retirement in Michigan.